

Impact of the global financial crisis on local communities in Moldova

EXPERT-GRUP

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Moldova

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Contents

1. General introduction	8
2. Executive summary.....	10
Channels of contagion	10
Impact of the crisis	10
Main policy recommendations	13
3. Exposure and vulnerability: how global financial crisis proliferates at local level?.....	15
4. Impact of the global financial crisis on domestic labour market.....	19
Introduction.....	19
Impact of the economic crisis on the employment and unemployment	21
Changes in the work environment.....	24
Work-schedule	24
Underemployment	24
Wages.....	25
Closing jobs as effect of the financial crisis.....	27
Crisis discouraging people on the labour market	28
Crisis and returning migrants.....	28
5. Impact of the financial crisis on local budgets and local public administration	31
Introduction.....	31
Financial short-sightedness	31
Relationship between the state budget and local budgets.....	32
Impact of the crisis on local budget revenues	33
The impact of the crisis on the local budget expenditures.....	36
Relevant case study: the budgetary situation of Telenesti district.....	39

6.	<i>Impact of the financial crisis on households</i>	42
	Introduction	42
	Households perceptions regarding the crisis	42
	Who suffered the most?	44
	Who suffered the least?	47
	Households' expenditures: shifting to a cheaper life...	48
	Relying on whom?	52
7.	<i>Impact of the crisis on local businesses</i>	54
	Introduction	54
	Crisis is more felt than perceived	54
	How exactly crisis affects companies?	59
	What companies have done and plan to do to offset the crisis effects?	60
	The shape of the future to come...	62
8.	<i>Policy conclusions and recommendations</i>	65
	<i>Appendice 1 : Policy Recommendation Matrix</i>	69
9.	<i>Annexes</i>	74
	1. List of conducted in-depth interviews	74
	2. Sociological survey: methodological details	74
	3. Methodological aspects of the conducted focus-groups	75
	4. Moldova's statistical areas	75
	5. List of people consulted for the local budgets' impact assessment	76

List of tables

Table 1 Difference between the real and forecasted values for DER and UR in Q1'09, percentage points.....	22
Table 2 Regional differences between real and forecasted value of DER and UR in Q1'09, percentage points.....	23
Table 3 Difference between the real and forecasted value of the work hours per week in Q1'09, %	24
Table 4 The share of own revenues in the total revenues	33
Table 5 Local budgets execution, 5 months 2009.....	35
Table 6 The structure of local budget expenditures by economic classification.....	36
Table 7 The structure of expenditures by economic classification in Telenesti district 2008..	36
Table 8 Financial situation and perspectives for 2009 in Moldovan territorial units, thousand MDL, if not otherwise indicated.....	38
Table 9 Telenesti budget distributed by district communities, 2009, thousand MDL	40
Table 10 Distribution of answers to the question „For you personally or for your family what does the current financial crisis mean?” (multiple answers), %.....	44
Table 11 Ranking of territorial units according to the evolution of retail trade volume in the 1st half 2009	51
Table 12 Ranking of territorial units according to the evolution of volume of services rendered to the population in the 1 st half 2009	51
Table 13 Ranking of territorial units by value of industrial production in 2009	56
Table 14 Ranking of territorial units by growth rate of the goods transported in 2009.	58
Table 15 Ranking of territorial units by fixed capital investment in 2009	58

List of charts:

Chart 1 Evolution of quarterly GDP in 2000-2008 and 2009 forecast, constant prices of 2000	15
Chart 2 General mechanism of financial crisis propagation at local level in Moldova	17
Chart 3 Evolution of the DER during 2000-2008 and the 2009 forecast.....	21
Chart 4 Evolution of unemployment rate during 2000-2008 and the forecast for 2009	22
Chart 5 Evolution of DER in Q1'07-Q1'09, by statistical regions	23
Chart 6 Real and forecasted values of derived employment rate and unemployment rate, by regions, Q1'09	23
Chart 7 Difference between the real and forecasted value of the number of underemployed in Q1'09, %	25
Chart 8 Evolution and forecast of the average monthly wage, in 2003 constant prices, MDL	25
Chart 9 Regional differences between the real and forecasted value of the average monthly wage, Q1'09, %.....	26
Chart 10 Difference between the real and forecasted value of the number of employed by economic sectors, Q1'09, %	27
Chart 11 Regional differences between the real and forecasted value of the number of employed, Q1'09, %.....	27
Chart 12 Regional differences between real and forecasted value of the number of discouraged, %.....	28
Chart 13 Regional differences between the real and forecasted value of the number of migrants, Q1'09, %	29
Chart 14 Difference between the real and forecasted value of the number of migrants, by host country, Q1'09, %	29
Chart 15 Revenue structure of the local budget, % of total.....	34
Chart 16 Expenditures per capita at local level, 2009 planned, MDL.....	36
Chart 17 Distribution of the valid answers to the question "Speaking about the current international financial crisis, which answer describes best your feelings?"	43
Chart 18 Distribution of answers to the question "To your opinion what is the current situation in your communities as compared with 6 months ago regarding the following aspects?".....	44

Chart 19 Distribution of answers to the question “What is your present financial situation as compared with 6 months ago?”.....	45
Chart 20 Monthly Growth of Remittances, %	47
Chart 21 Average wage growth in the first half 2009, %	48
Chart 22 Distribution of answers to the question “Have you reduced your consumption expenditures in the last 3 months or do you intend to reduce them?”	49
Chart 23 Distribution of answers to the question “Do you think that presently it is more or less complicated to find a well-paid job as compared with 6 months ago?”	50
Chart 24 Distribution of answer to the question “To what extent Moldova is affected by the international crisis?”	55
Chart 25 Distribution of answers to the question “How do appreciate the situation of your business in the last six months?”	56
Chart 26 Distribution of answers to the question “What measures you undertook in order to cope with the crisis in the last three months?” (the first option).....	61
Chart 27 Distribution of answers to the question “What measures you plan to undertake in order to cope with the crisis in the next three months?” (the first option).	61
Chart 28 Distribution of answers to the question “How the things will turn out for your company in the following three months?”	62

1. General introduction

This study was commissioned to the Expert-Grup think-tank by the UNDP office in Moldova with the purpose to assess qualitatively, and to the extent possible, quantitatively, the impact of the global financial crisis and associated economic downturn on Moldovan local communities and identify possible responses that local communities can adopt to cope with the crisis.

Expert-Grup has used a wide range of tools and techniques to conduct the research. Available statistical data have been analyzed quantitatively but qualitative research was important to get the quantitative analysis more “human development”-orientated. Below, there is a description of the methodological instruments used to collect the quantitative and qualitative data:

- A number of interviews on the perceived impact of the global financial crisis and domestic economic decline have been conducted with 10 local public administration representatives (mayors and local councils' secretaries) in 10 communities covering Northern, Central and Southern regions of Moldova (see Annex 1).
- More than 20 representatives of the local public services (social protection specialists, medical assistants, family doctors and schools directors) from 10 communities have been interviewed with the same purpose (see Annex 1 for their geographical distribution).
- A total number of 123 local companies from the entire country (except Chisinau, Balti and Transnistrian region) have been surveyed to identify to what extent are they affected and how they respond to the crisis.
- A nationally representative public opinion poll was conducted in July 2009 with 1100 respondents from the entire country (except Transnistrian region) based on structured questionnaires on the impact of the crisis. For financial reasons, the survey was not designed to be representative at districts' level (see Annex 2 for a description of the sociological survey details).
- Five focus-groups have been conducted in Stefan-Voda, Nisporeni, Rascani, Hancesti and Cahul with socially vulnerable groups, including migrants returning home and members of the families with migrants. A total number of 46 participants attended the focus-groups (see Annex 3).
- A quantitative analysis of the crisis impact on the market was accomplished based on the available quarterly statistical data provided by the National Bureau of Statistics. Using a dynamic model, we have assessed the impact of the financial crisis on the employment and unemployment rate, working conditions, wages and return of migrants. Whenever possible, indicators were disaggregated at regional and local level, but here significant constraints exist because when disaggregated at local level the indicators may not necessarily be of high quality or meaningful.
- The quantitative analysis of the crisis impact on local budgets was accomplished using statistical data and reports provided by the Ministry of Finance. Ten heads of districts and specialists from district council economic and finance divisions from Ungheni, Telenesti and Falesti districts have been interviewed. Also, in order to get a deeper insight into how the local public administrations adapt to the crisis a case study has been conducted with district-level public authorities in Telenesti district.
- An analysis of the statistical data at economic sectors' level was done to identify territorial units that suffered to the largest extent due to the global financial crisis. A number of industry-based indicators have been used for this purpose.

The collected data have been used to assess the impact of the global financial crisis on three big institutional sectors: companies, households / individuals and local government. However, a fourth “sector” – market – has been added as first part of the analysis for three

basic reasons: 1) market represents the obvious economic space where the influences from and to the three institutional sectors interact; 2) market dynamics have changed significantly in the first half of the year 2009 as result of economic decline and returning migrants; and 3) market policies have important human development dimensions, while its outcomes have direct impact on state of human development in the country.

The report is structured as follows. The next section summarizes the main findings of the report. Section number 3 identifies the main weaknesses that have made local communities in Moldova vulnerable to the financial crisis and explain how the crisis boils down to the community level. In section number 4 we have analyzed quantitatively the impact of the crisis on market. The fifth part is dedicated to assessment of the situation of the local budgets in the context of the crisis. Section number 6 deals with the impact of the crisis on economic and social situation of the households and individuals. The seventh part of the report evaluates to what extent local companies have been affected by the crisis. The final part makes general conclusions and some policy recommendations to the government, local public administration and all other stakeholders that can influence the development policy.

An important note has to be added. In 2009 t local communities in Moldova were victims of more than just the global financial crisis and domestic economic downturn. Multiple, superimposed crises have undermined the activity of the local public administration and companies and have affected the households' well-being. The political crisis increased social stress and undermined the institutional confidence and stability necessary for the local public administrations to perform their duties. (And the conducted sociological survey has shown that in June 2009 more people were afraid of domestic political turmoil rather than of the financial crisis itself). The sudden introduction in April 2009 of the visa regime with Romania left many Moldovan-Romanian joint ventures dysfunctional because engineers and managers from Romania could not get their visas in order to supervise the production process. In 2006-2007 the winemaking sector and related industrial and agricultural branches collapsed as a result of Russia enforcing a trade embargo on Moldovan alcoholic beverages. Their financial situation remains very bad and many are in bankruptcy trials. The catastrophic drought in 2007 has had a detrimental impact on crops and livestock producers, an impact that still perpetuates because of the collapsed farmers' income. In 2008-09 prices for many agricultural products went down leaving many farmers with substantially lower revenues than even in 2007. Obviously, it is almost impossible to separate neatly the effects of all these crises, leaving apart the fact that many people in Moldova have the perception that the country has been in a continuous crisis and that "constant crisis" has been an ordinary part of their life in the last two decades.

2. Executive summary

Channels of contagion

- Global financial and economic crisis resulted in a significant drop of the Moldovan economy, with the GDP declining in the first quarter 2009 by 6.9% compared with the first quarter 2008; however the GDP declined by more than 17% compared with the expected trend value that the Moldovan economy would have posted if no crisis occurred. The impact of the crisis on the economy is not uniform. For example, industry is much more affected than trade and agriculture. Also, export-oriented activities are impacted more strongly than domestically-oriented ones;
- Main contagion channels through which the financial and economic crisis has affected Moldovan local communities are falling remittances, declining domestic and external demand, reduction in the foreign direct investments inflows, shrinking governmental transfers to local budgets, and increasing unemployment as result of migrants returning home;
- All these contagion channels experienced deep recession in 2009: the remittances entering the country decreased by one-third in the first half of the 2009; governmental transfers to the local budgets matched only 85% of the planned level in the same period; foreign demand contracted sharply as proven by a 20% collapse of exports in the first half of 2009; domestic demand has shrunk as well as suggested by the retail sales declining by 4.4% in the same period; we have also seen a three-fold contraction of the FDI inflows in the first quarter of the year and about 13% of migrants coming back to Moldova but with no prospect of decent jobs here;
- All these effects translated in economic slowdown at the local level which manifests itself in many ways – reduced salaries, shrinking employment, fewer working hours, less consumption expenditures and others. But besides economic effects, the financial crisis has generated negative social consequences. Some experts claim that this year has seen a rise in the incidence rate of psychological problems, including depression and suicide attempts. In-depth interviews, focus groups and sociological survey have unequivocally confirmed that social and family tensions are on the rise due to loss of jobs and declining income, but also due to lack of trust in tomorrow;

Impact of the crisis

- The financial crisis has significantly reduced the employment rate in Moldova in the first quarter of 2009. This has affected mainly males and rural population. At the same time the crisis had a significant influence on unemployment figures. Again, males seem to be more affected by unemployment, particularly younger males and those living in rural settlements. Northern and Central regions in Moldova have been particularly affected by growing unemployment and reduced employment opportunities;
- The crisis has shortened the working week on average by 1 hour, with the impact being particularly strong in agriculture and industry. The decrease is much more significant in the Northern and Southern regions. At the same time, the number of underemployed people has grown in essentially all regions;
- Contrary to the conventional wisdom, the average wage has continued growing in the first half of the year. This trend persisted because while the jobs are being closed, the

total wage bill does not change so rapidly. In the Northern region, there is a particular concentration of districts where the negative growth of the salaries registered at a higher rate, and this is related to higher role of industry in this region as compared with the Central and Southern regions. In Chisinau municipality, the declining industrial wages were to some extent offset by the more resilient wages in the services sector;

- Another essential impact on market is the 86.6% increase in number of discouraged people, i.e. economically inactive people, who would like to work, but do not actively seek a job, because they believe they will fail since there are few attractive opportunities. Most of these individuals do not register at Employment Office. The Central region and Chisinau municipal area seem to be the most affected by this phenomenon;
- The financial crisis has also forced many Moldovan migrants to return back home. From the two most important countries hosting 80% of Moldovan migrants – Russia and Italy – those in Russia were affected the most. Due to the crisis, approximately 37,000 people left Russia and about 8,000 left Italy. Most of the returning people are men and are rural residents and most of them are willing to work. For these reasons, the unemployment rate is expected to rise for this group of people and for the whole economy as well;
- The on-going financial crisis has impacted local budgets as well. The existing system of local budget formation has kept local authorities highly dependent on the state budget transfers. As opposed to the stated objective of fiscal decentralization, the dependence of local budgets has only grown in the last years. Many expenditure-related decisions that would save financial resources have to be coordinated with the central government and this usually takes a long time (for instance, merging temporarily a school with a kindergarten). This has considerably limited the local authorities' possibilities to react to the crisis, particularly in conditions of a protracted electoral campaign and generalized political stalemate;
- The government response to the crisis has been delayed and fragmented at best. The indication to the local budget authorities to reduce expenses has not been coordinated with other central public authorities, who could adopt policies that can have a greater effect on the efficiency and effectiveness of spending at the local level. Even more, this indication is not legal because it had to be passed by the Parliament in order to take juridical effects. For this reason, the Ministry of Finance started accumulating arrears on transfers to local budgets (but the arrears are equally illegal);
- Worrying signals of an approaching crisis emerged back in late 2008. However, the government's short-sighted policy of not recognizing the approaching economic crisis led to overly optimistic budget projections at the central and local level. A more accurate macroeconomic forecast would have prepared the local authorities and would have made the reduction in expenditures less painful. At the same time, the central government has made life only more difficult by suddenly advancing proposals of increasing public wages prior to elections in April 2009. The increase in wages in the first quarter of 2009, which almost coincided with the requested cut in expenditures did not make much sense in the absence of funding and only put more pressure on local budgets;
- The collection of own revenues local budgets have been largely positive in the first half of the year, but it is expected to drop dramatically in the months to come due to the reduction in the number of employees and wages in the private sector. Since the reduction in transfers has not been approved officially, the government has been

accumulating arrears on transfers to the local budgets. The reduction in transfers is not applied uniformly across local budgets. In the case of budgets with a higher share of local revenues, the impact is smaller. Also, budgets with positive balance at the beginning of the year have more resources to cope with the reduction in spending;

- The local authorities' response to the reduction in expenditures is limited to cuts of some small expenses for investment projects and some logistics expenses (travel, transport). To cope with the needed cut while preserving salary expenses, local authorities will need to reduce by 50–60% payments for communal services. These include heating and electricity for public institutions, food for children in kindergartens and schools, etc. Since it is not possible to completely eliminate these payments, local authorities believe that they will start accumulating arrears on salaries as well by the end of this year;
- At the individual and household level, the Moldovan population has stated in surveys that the current world economic and financial crisis negatively impacted their situation. Only 6% of the country's population did not hear anything about the global financial crisis and 18% are not concerned at all about the crisis. One quarter of the respondents are worried because the crisis can hit them and 20% are very worried because they have already been hit by the crisis.
- While the majority of households felt the repercussions of the world financial and economic crisis, the most affected are those actively involved in the country's economic life. At the same time, the least affected are students and pensioners. As a result, most of households reduced their consumption expenditures. The most prominent impact on the consumption decrease had the decrease in remittances caused by the worsening financial situation of family members working abroad. Consequently, this led to decrease in sales of enterprises and worsening of the financial situation of many economic agents;
- The on-going financial crisis is likely to have increased people's traditionally negative perceptions of their communities. People have perceived a worsening situation in most aspects of life at community level in the last 6 months. The most negative are perceptions regarding economic parameters: changes in unemployment, level of prices, wages and general economic situation (functioning of companies, shops etc.) with around 60% of the people interviewed demonstrating such negative perceptions. Changes in community-based public services – such as street lights, waste management, health services - have received moderately negative perceptions between 30% and 60% of all respondents. There are some worrying signs of worsening social situation, as shown by rather negative perceptions regarding the changes in social tensions, alcoholism level, level of criminality and family violence.
- There are some differences in crisis perception in different areas, with the urban population more concerned about economic uncertainty in the near future, while rural populations are mostly worried about long-term poverty. It reveals that people with lower incomes and relatively low opportunities for participation in economic life, and who live mostly in rural areas, were concerned with much more extreme issues (such as poverty). It is explained by the fact that the financial situation of rural households depends more on climate conditions which significantly can multiply the financial crisis repercussions on the rural population;
- Based on the criteria of main source of income, the employees of the private/public companies, owners of individual enterprises, beneficiaries of social assistance and migrants and their families seem to be in the most crisis-affected categories; on the

other side, budgetary employees and pensioners did not suffer so much, due in part to increasing payments received in spring;

- As adaptation strategies, there are two approaches that Moldovan population follows. First, people would like to try to recover to the extent possible their previous level of income by working more in the household garden or in the peasant farm, by trying to find an additional job, by looking for another job inside the country or abroad; and by trying to work more hours at their current jobs. However, all these wished may well be impossible in a generalized economic downturn. Second, on the expenditures side, most of households reduced or plan to reduce in the immediate future their expenditures for foodstuff, clothes and footwear, housing services, alcoholic beverages and tobacco and for current house repair works. Big capital purchases have been postponed for better times.
- Moldovan companies also felt the brunt of the international financial crisis. A majority of companies across all sectors suffered as their situation worsened in the last half of year, (however, some companies failed to connect the decline with the international financial crisis). Perhaps, it can be explained by the fact that the economic crisis in Moldova was compounded by the political instability. At the same time, many companies did not have an easy time in Moldova in previous years too. In the productive sector again, as in the households', there is a constant perception among many companies that Moldova has been in a continuous crisis in the last two decades or more;
- The fall in demand is seen as the main culprit in the economic decline, and it shows how dependent the Moldovan economy has become on the rising household income based on rising wages and migrants' remittances. However, the short-term outlook for domestic demand is dim. As companies look to readjust and cope with the crisis effects, they increasingly rely on such measures as slashing working hours and cutting wages, which in turn will undercut the domestic demand even further. And if business expectations are to be given credence, there will be no surge in the migrant's remittances needed to prop up the domestic demand;
- Quite logically an eventual decline in labour costs is seen by the companies as the only bright spot in the future, while costs for credit and raw materials are both expected to become higher in the forthcoming months. However, according to focus-groups and in-depth interviews, some companies that have not been touched so much by the financial crisis and enjoy constant domestic demand for their goods and services have resorted to wage-cuts too. This is an extreme form of social irresponsibility which has to be adequately approached by the government both at central and local level;

Main policy recommendations

- Government intervention would be helpful for sorting out the consequences of the financial crisis. But companies themselves although increasingly looking to the government for help, are quite confused about what to request and what to expect from the government. Perhaps, better communication between the two would be helpful. In any case, in order to develop Moldovan companies will need to search for new drivers for growth in the future. Such drivers would include better trained workers, more competent managers and marketing specialists and higher quality of the products and services offered to the domestic and foreign markets;

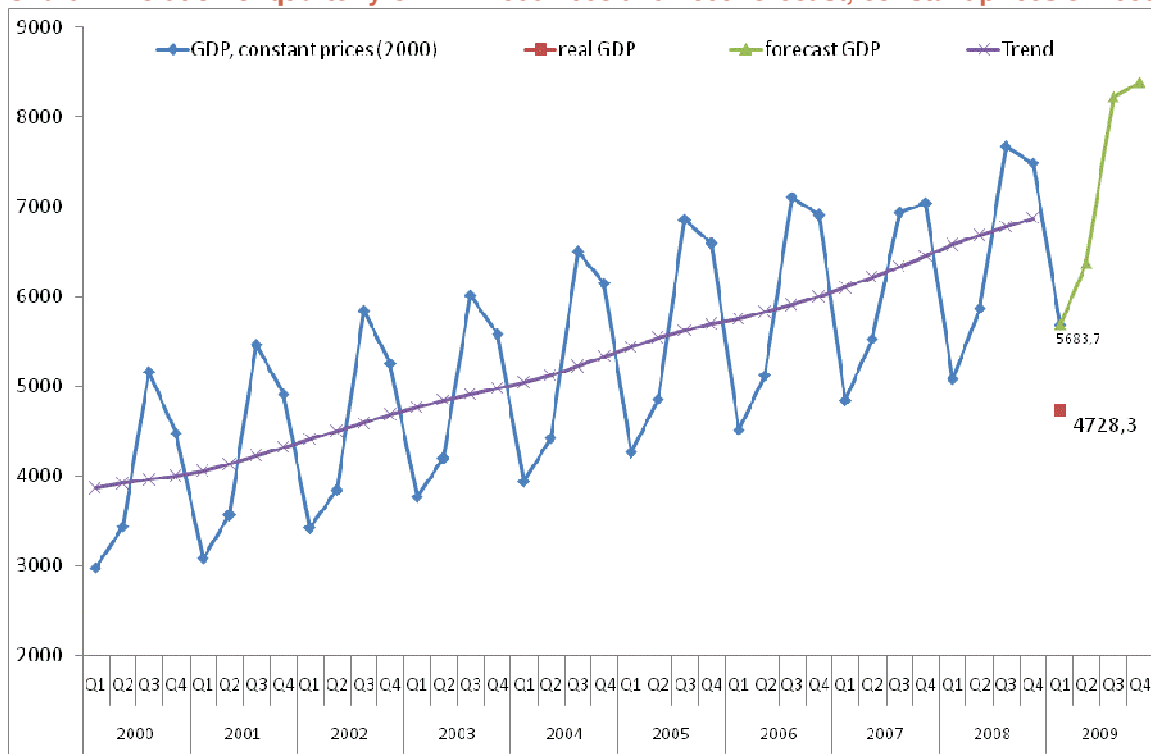
- The main policy recommendations are addressed to central government, because there is quite limited scope for intervention from the part of local public administration. It is already quite late to address the crisis with fiscal tools. What the government should urgently do is to remove domestic institutional and structural barriers affecting both demand side and supply side of the economy. Reigniting Moldovan economy requires in first instance rebuilt trust regarding the government, and regaining access to foreign and domestic markets for all economic sectors.
- As Moldovan economic growth depends on migrants' remittances and will remain as such in short run, it is important to facilitate international mobility of the labour force instead of constraining it. In the short term, this measure is necessary in order to rebuild consumers' confidence but in long run the growth should be based on more jobs-creating investments. And it should not be forgotten that crisis is not just a harsh economic time, but also a good moment to address in radical way the core weaknesses of the economy.

3. Exposure and vulnerability: how global financial crisis proliferates at local level?

The international financial crisis has already impacted the Moldovan economy and society in many ways. While there are relatively limited statistical data to evaluate thoroughly the impact on the local communities in Moldova, the ordinary people and representatives of the public administration and local companies perceive the impact as quite sizeable.

The most informative indicator suggesting the depth of economic downturn is the GDP growth rate. Here, two approaches are useful: one that compares year-on-year (y-o-y) growth and another one that compares real growth with the potential growth. For example, in the first quarter 2009 (Q1'09) the GDP decreased by 6.9% as compared to Q1'08 (y-o-y); however this rate of decrease does not reveal the true magnitude of the crisis consequences. If not the crisis, the value of the GDP in Q1'09 would have increased much more due to the growing trend of the past 8 years. By using this “total impact” value, we estimate that the GDP decreased by nearly 17% (Chart 1).

Chart 1 Evolution of quarterly GDP in 2000-2008 and 2009 forecast, constant prices of 2000



Source: NBS and authors calculations;

The statistical system in Moldova is not developed enough to estimate the magnitude of the economic downturn at regional or district level in terms of GDP. However, from the “national” figures shown above it is clear that the “local” impact is quite deep as well. The mechanism that the financial crisis propagates through at community level is complex, with many forward and backward links and influences. The Chart 2 shows the main six contagion channels that have exposed Moldova to the global economic downturn and financial turmoil. These channels are:

- **Falling remittances:** according to available data from National Bank of Moldova, the money transferred through commercial banks by natural persons from other countries to Moldova (a proxy for total migrants’ remittances that enter the country via other

channels as well) decreased by 30% year-on-year in Q1'09 and by 33% in Q2'09¹; the impact felt in rural communities is particularly deep because more than two-thirds of the Moldovan migrants have families in rural areas.

- **Falling governmental transfers to the local budgets:** these transfers matched 95.7% of the planned level in Q1'09 and only 74.7% for Q2'09²; while almost all districts and communities rely (to various extent) on governmental transfers, the impact of the shrinking transfers is extremely negative on a number of poor regions that have a particularly narrow base of own revenues;
- **Collapsing foreign demand,** which translates in falling wages for migrants and falling remittances, but also in a reduction of country's exports: the value of Moldova's goods exports declined by 19.2% year-on-year in Q1'09 and by 22.9% y-o-y in Q2'09³; due to statistical data shortcomings, it is difficult to assess the variations of this impact in regional profile;
- **Collapsing domestic demand,** which means that households are less inclined to consume domestic and imported goods and services: the retail sales declined by 4.3% y-o-y in Q1'09 and by 4.5% y-o-y in Q2'09; volume of services rendered to the population stagnated at the level of 2008⁴;
- **Falling Foreign Direct Investment;** this is an important channel of contagion, because it affects both financial situation of the local labour force and the international trade links; in the first quarter the FDI inflows to the Moldova's economy collapsed three-fold, from USD 128 million in Q1'08 to USD 48.6 million in Q1'09⁵; data for the second quarter are not yet published; here Chisinau, Balti and a few other cities hosting most of the foreign-owned companies are likely to have suffered the most;
- **Migrants returning home;** obviously this factor is negative only if the migrants do not find any jobs or other legal economic opportunities (such as individual entrepreneurship); for the time being there are no signs that the returning migrants successfully integrate into the domestic labour market; based on NBS statistical data, in Q1'09, an estimate share of 13% of the migrants returned home (about 45 thousand); there are no yet data available for the second quarter⁶;

At the local level, the impact of the financial crisis manifests in 3 broad areas: social sector, local public administration and functioning of the local economies. Virtually each channel of contagion features immediate or lagged effects on all the three areas.

Falling remittances result immediately in increased monetary poverty rate or increased poverty vulnerability because many families that used to depend on migrants' remittances did not have enough savings to compensate for the current fully for the "bad day". Declining domestic wages only heat up the pressures created by falling remittances. Such a situation creates very high psychological stress and many people are not able to deal reasonably with such emotional pressures. According to some reports, the incidence of psychological depressions and even the incidence of suicides have increased in 2009 due to the economic crisis⁷. Loss of jobs internally and abroad, weakening remittances support and associated

¹ Statistical data available at http://bnm.md/md/external_operations_via_banc_system.

² Calculated based on financial reports of the Ministry of Finance available at <http://minfin.md/ro/nationalbuget/inopexbug/>.

³ Moldova's foreign trade data available at <http://www.statistica.md/category.php?l=ro&idc=336&>.

⁴ Data on Moldova's domestic trade with goods and services available at <http://www.statistica.md/category.php?l=ro&idc=142&>.

⁵ Moldova's Balance of Payments is available on National Bank web-site at http://bnm.md/md/balance_of_payments.

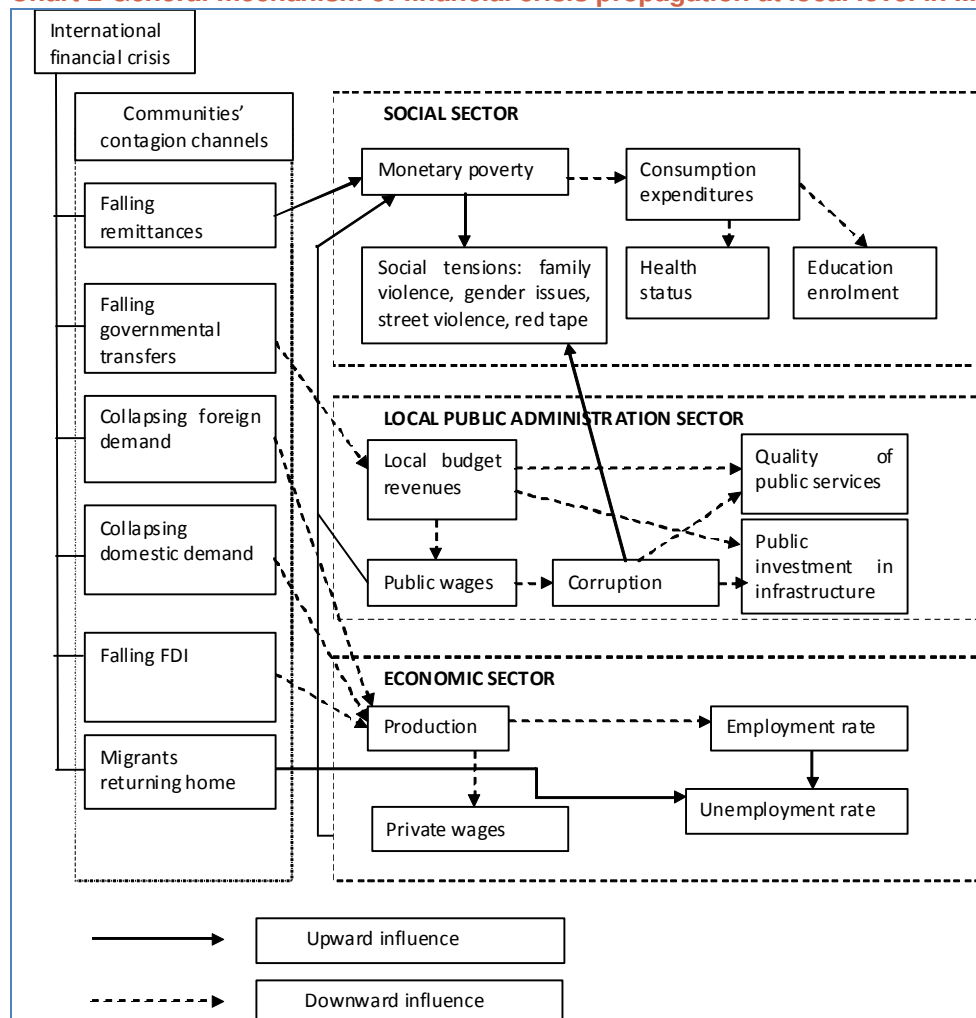
⁶ NBS quarterly report on labour market available at <http://www.statistica.md/newsview.php?l=ro&idc=168&id=2607>.

⁷ "Economic crisis leads to increased number of depressions and suicide among Moldovans", interview with Ghenadie Caraus, associate professor at Chisinau Medical University, published in "Jurnal de Chisinau" magazine, issue no.878, August 18, 2009.

financial problem lead also to increased social tensions at family and community level, as conducted in-depth interviews and focus-groups have clearly shown.

Even among families able to accumulate some savings from remittances or wages, there was caution about spending those funds. Among others, expenditures for decent food, clothes and shoes and in some cases for education and health have been reduced, as part of the strategy of accommodating to the consequences of the financial crisis. As a result, we expect that health status and education enrolment and education outcomes will worsen for a short to medium period of time. Some parents have said also that they will have to ask their children to work in order to sustain the income flows.

Chart 2 General mechanism of financial crisis propagation at local level in Moldova



Source: EG;

Falling governmental transfers to local budgets will inevitably determine a drastic budgets revision in the course of this year. We expect that in some districts the public wages will either decrease or delayed further increasing poverty vulnerability of the people employed in the public sector. It is certain as well that both maintenance expenditures and capital investment in public services will substantially decrease in 2009 and in 2010. Inevitably, this will be accompanied by declining quality of the provided services. It has to be added that falling public wages can serve as impetus for corruption in the local public administration, which will further dent the provision of the public services and efficiency and transparency in spending public revenues.

Naturally, collapsing foreign and domestic demand has an immediately discouraging impact on firms. They are more cautious with their investment plans, and in fact most of the investment plans have been postponed for better times. A similar negative impact on companies has been the falling flows of Foreign Direct Investments, which leaves domestic companies with fewer production capacities and fewer chances to generate profits and wages in the long-run. Due to firms' falling revenues, many jobs are either formally closed or employees sent on "administrative leaves". This results in a further decline of the already very low employment rate. This has an immediate impact on families' income but in the long-run low-employment rates will also further undermine the sustainability of the pensions system and medical insurance system. Some of the people who lost their jobs are actively looking for other occupations, but many prefer to stay economically inactive and wait for better economic times. Wages in many private companies are declining, which creates further spirals - by diminishing the likelihood of people buying consumer goods.

Migrants returning home contributed to diminishing remittances but many of them also enter the ranks of the unemployed. For the time being, the Moldovan economy is unable to provide jobs as decent or well-paid as the ones migrants had abroad. This is why most of the migrants prefer to stay abroad even in lower paid jobs, or wait for economic growth to resume rather than return to Moldova. But many of those remaining abroad without jobs and means for survival end up committing crimes and are ensnared in the justice system. In the last 6 months the Moldovan, European and Russian mass media have featured an increased number of cases with Moldovan migrants being involved in criminal activities in other countries, mainly for reasons of not having basic means for survival⁸.

⁸ See for instance, a very recent analysis in the Russian news magazine Izvestia "Asking from migrant workers quality work is deadly dangerous", available on-line at <http://www.izvestia.ru/investigation/article3131893/>.

4. Impact of the global financial crisis on domestic labour market

Introduction

In order to evaluate the impact of the world economic crisis on the labour market of the Republic of Moldova and make a quantitative assessment it is necessary to: a) design a theoretical framework to analyze the interaction between the world economic crisis and labour market in Moldova; and b) determine the indicators which can be applied for estimating the impact of the crisis. The immediate effects of the global financial crisis include economic recession mechanisms and manifest themselves as lower demand and respectively diminishing output of goods and services. It would be reasonable to expect that such changes taking place on the goods and services markets would associate with a number of negative evolutions on the labour market. One would expect to see such changes as:

- Worsening working conditions for employees (delayed and/or reduced salaries, changes in the work schedules etc.);
- Losing jobs, which can take two forms:
 - Losing the job *de facto* but preserving some formal contacts with it (this is the so-called “technical unemployment”, when employees are not working for the reasons of not having raw materials, supplies, orders etc.);
 - Losing the job *de jure*, without preserving any connection to the former job, and this means that the workplace has been effectively closed. However, it would be reasonable to expect that companies tend to avoid such option because of the cumbersome provisions of the Labour Code that have to be followed when closing a job;
- Intensifying labour migration among economic sectors, because the impact of the crisis on the economy is not uniform. For example, in Moldova industry is much more deeply affected than trade and agriculture. Also, export-oriented activities are hit stronger than domestically-oriented ones;
- Rising unemployment due to lay-offs or shorter working schedule. In this situation the affected people are expected to try to find a second job or an additional occupation;
- Increasing number of discouraged people i.e. those avoiding searching for jobs because they believe that employment opportunities are scarce in times of crisis. As result, the number of people that stop searching for a job or do not undertake any measures to find one is increasing and this group of workers enters the group of economically inactive people;
- Returning of the labour migrants to Moldova, who lost their jobs in the host country and thus create additional pressures on the national labour market.

Taking into account the above mentioned theoretical framework and available data, the impact of the crisis can be assessed using some available quantitative indicators calculated by the National Bureau of Statistics. There are two important sources of information: the Labour Force Survey (LFS) and statistical reports on Employee Structure and Remuneration (ESR). When identifying and analyzing the indicators, it will be taken into account that the labour market has not been evenly affected by the economic crisis. More disaggregated (rural-urban, gender, when feasible by region) data will be used in order to check the hypotheses concerning the impact of the crisis on the labour market.

It is important to make some important comments regarding the labour market indicators, because frequently in Moldova they are wrongly interpreted. It is necessary to start analysis

with basic indicators of the labour market: employment and unemployment rate. Keeping in mind the impact of the financial crisis on the labour market in Moldova, these indicators should have registered “different” evolutions compared to the “expected” development in the first quarter of 2009 (even though acknowledging that some changes on the labour market emerged back in November 2008).

The employment and unemployment rates calculated by NBS based on LFS are indicators defined by the International Labour Organization (ILO). The purpose of these indicators is to study the performance of the labour market and to make valid international comparisons. However, they may have a limited analytical potential in an unbalanced economy such as the Moldovan economy. For instance, in EU-27, the average unemployment rate in 2008 was 7.0%, while in Moldova only 4%. Does it mean that Moldovan labour market performs better than the European ones? Or maybe the NBS data are incorrect? The answer lies within the rigorous ILO definition of the employment rate. For a person to be considered unemployed, the person must be “undertaking active measures for seeking a job”. Labour market in Moldova provides few opportunities to find a well-paid job. Aware of this, many Moldovan citizens prefer to seek a job abroad or do not look for it at all preferring rather to go on with studies, take care of children, etc., frequently thanks to a financial support coming from a migrated relative or from the state. As result of this, the number of unemployed population in Moldova is surprisingly small.

In Moldova the employment rate depends on migration as well. According to the ILO definition, the population which is neither employed nor unemployed is considered economically inactive. For instance, migrants are considered inactive because they do not have a job and do not seek one in Moldova. As a result, the employment rate in Moldova is grossly underestimated. In spite of the fact that the indicator is calculated correctly based on the ILO methodology, the dynamics of the employment indicators turn out to be distorted.

To avoid these distortions, a Derivative Employment Rate (DER) will be calculated by excluding the labour force working abroad from the group of inactive population. Also, for the purpose of comparability of labour market indicators with the EU-27, the employment and unemployment indicators will be calculated for people aged 15-64 years, which according to EU standards represent the working age.

Generally, there are two possibilities for evaluating the impact of the crisis: a) comparing the value of an indicator during the crisis (in this case – Q1'09) with the same indicator prior to crisis (e.g. Q1'08) and b) comparing the value of an indicator during the crisis period with potential value that the indicator would have taken under normal conditions. The first method, reveals the “visible” value of the impact, while the second method – the “total” value of the impact.

To estimate the impact of the crisis, the values of the indicators which have been registered in Q1'09 will be compared with forecasted values using a dynamic model. The applied dynamic method is a SARIMA model, identified using the TRAMO/SEATS method for making seasonal adjustments of dynamic series⁹. The essence of the model is to break down the dynamic series into three components: the trend, the seasonal factor and the random variable. By combining these variables it will be possible to calculate the potential values which could have been registered in Q1'09 under normal conditions (without crisis). If there is a significant difference registered between the real and forecasted values, one can assess

⁹ The ARIMA models are general type models used for time series. ARIMA stands for „Auto-Regressive Integrated Moving Average”. SARIMA models are ARIMA models which have a seasonal modeling variable. TRAMO/SEATS is an identification method of the SARIMA models, elaborated by Spanish econometricians. For details see: <http://www.bde.es/servicio/software/econome.htm>

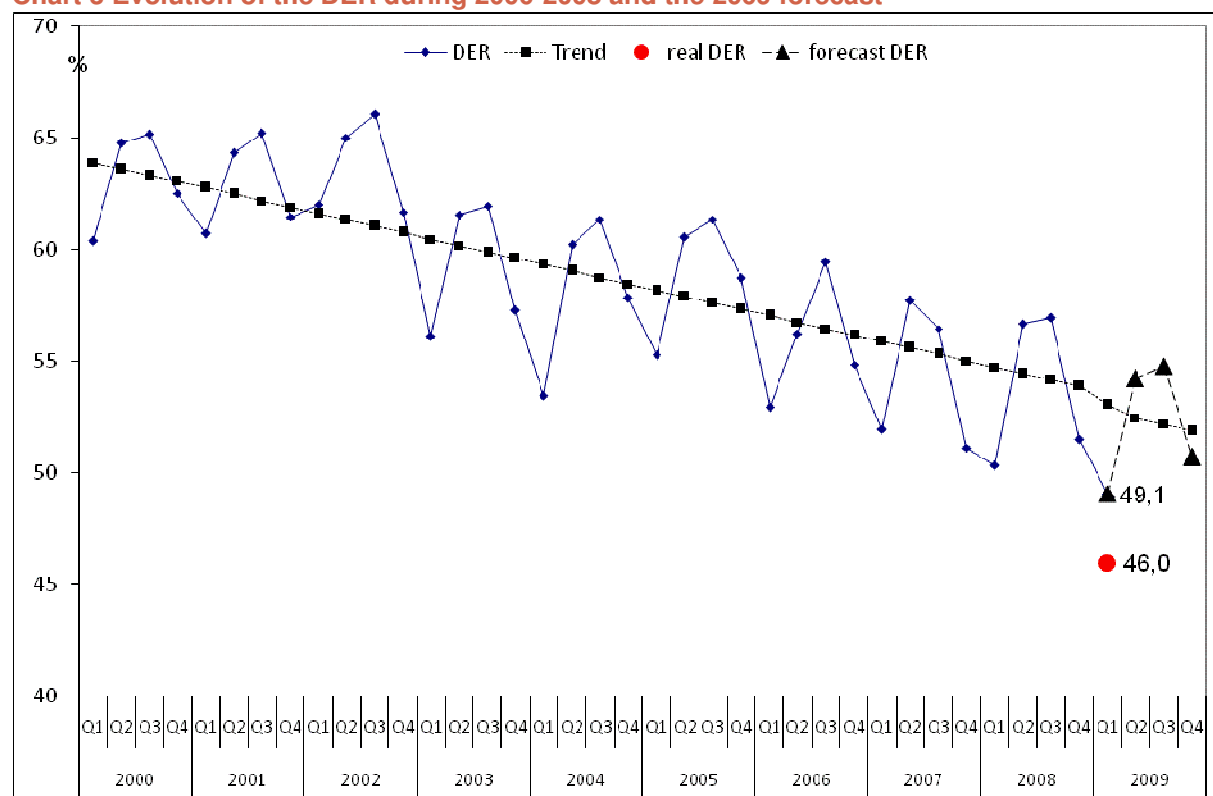
that the labour market in Moldova has been affected by crisis and can quantify the value of the impact.

It is difficult to estimate the impact of the crisis on regional and local labour markets in Moldova due to shortage of statistical data. NBS calculates the employment and unemployment rates for the statistical regions only since 2007¹⁰. These data are not sufficient to estimate the trend at regional level and these regions do not coincide with the development regions (Southern statistical region includes Gagauzian development region). However, knowing the impact of the crisis at national level and the evolution of the regional indicators in the past two years, general estimates can be done based on some hypotheses. The main hypothesis is that if no crisis would have occurred, the change in indicators from Q4'08 to Q1'09 would be similar to the change from Q1'07 to Q1'08.

Impact of the economic crisis on the employment and unemployment

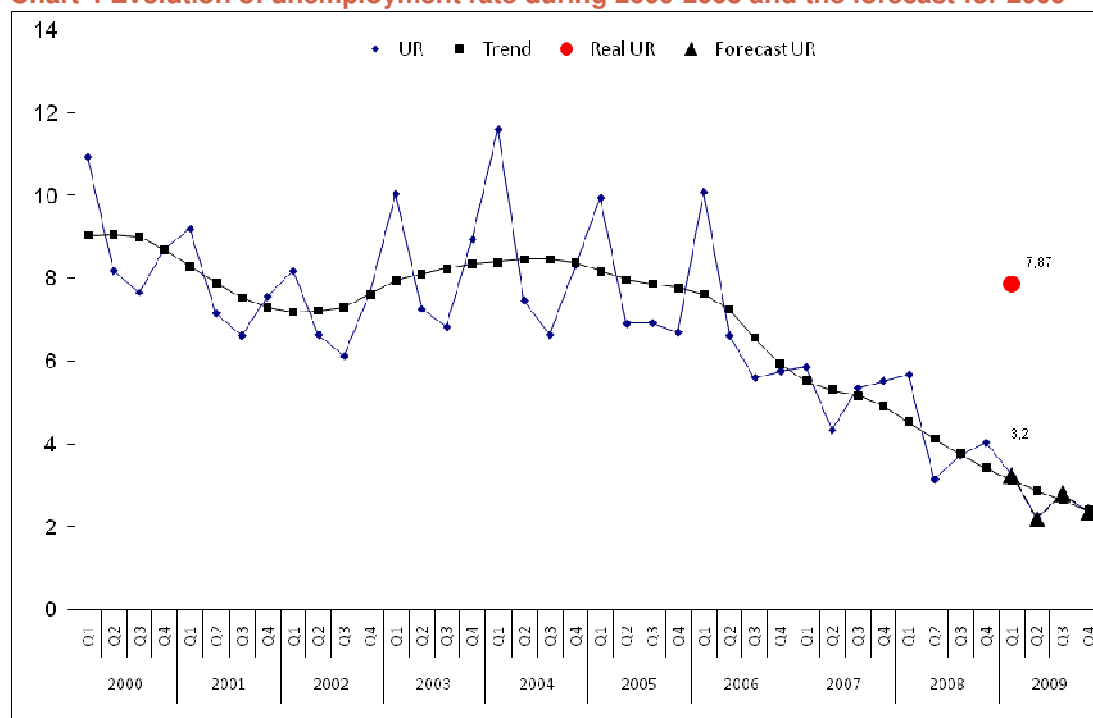
In order to build the corresponding model, data concerning quarterly evolutions of Derivative Employment Rate (DER) and Unemployment Rate by gender, place of residence and age has been used for 2000-2008. According to the model, the forecast for 2009-2010 is as shown in Chart 3 and Chart 4.

Chart 3 Evolution of the DER during 2000-2008 and the 2009 forecast



Source: NBS and authors calculations and forecast

¹⁰ See annex 3 for more details.

Chart 4 Evolution of unemployment rate during 2000-2008 and the forecast for 2009

Source: NBS and authors calculations and forecast

Taking into account the deviations, it can be assessed that the financial crisis has reduced the employment rate in Q1'09 by -3.1 p.p., and this mainly affected males and rural population (Table 1). The smaller impact on youth employment, -0.7 p.p., can be explained by the fact that their employment rate has been small before the crisis itself (18.4% compared to 37.4% in EU-27). The crisis had a significant influence on unemployment figures. Men and rural population have been affected most of all. The crisis contributed to a 4.7 p.p. increase in the general unemployment rate. Males seem to be more seriously affected by unemployment, particularly younger males and those living in rural settlements.

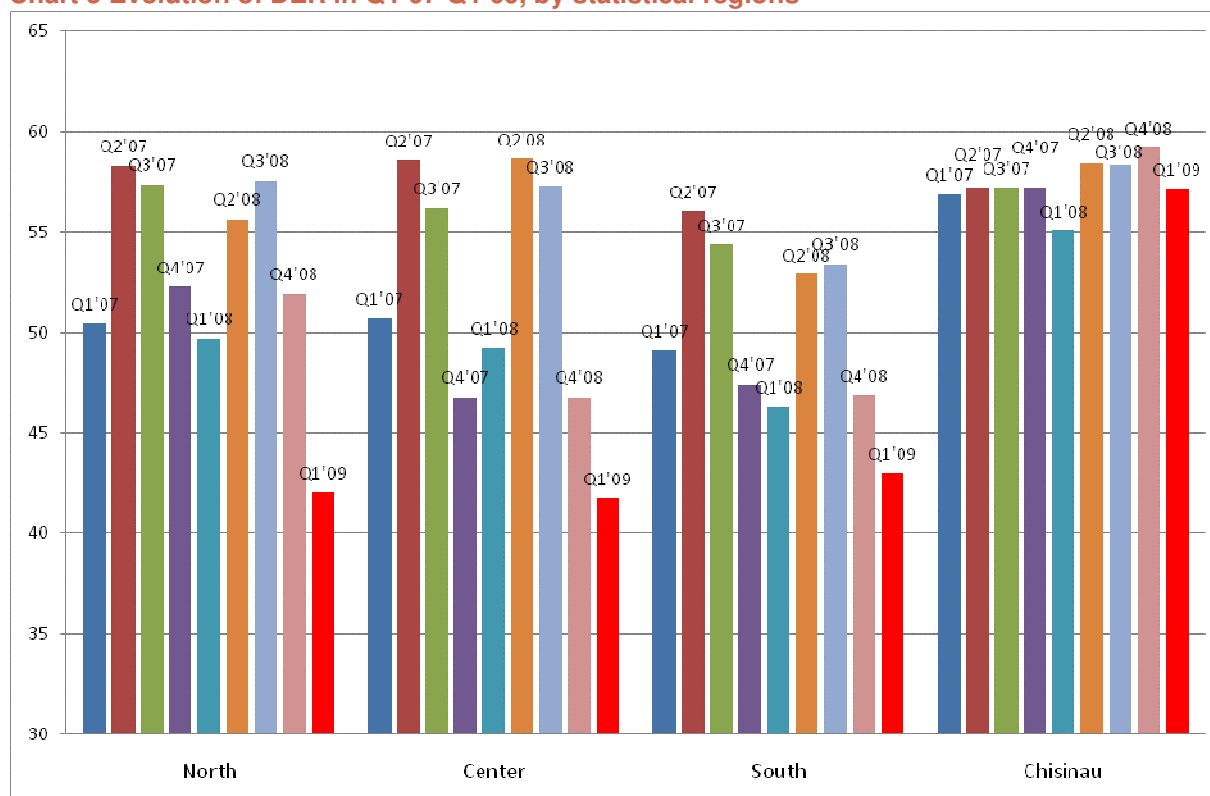
Table 1 Difference between the real and forecasted values for DER and UR in Q1'09, percentage points

	Total	Male	Female	Urban	Rural
DER - Derivative Employment Rate					
15-64 years old	-3,1	-4,2	-2,2	-3,5	-4,2
15-24 years old	-0,7	-4,4	0,7	-3,4	-0,3
UR – Unemployment Rate					
15-64 years old	+4,6	+4,6	+2,2	+5,5	+3,0
15-24 years old	+5,7	+5,5	+2,1	+2,5	+7,0

Source: Authors calculations;

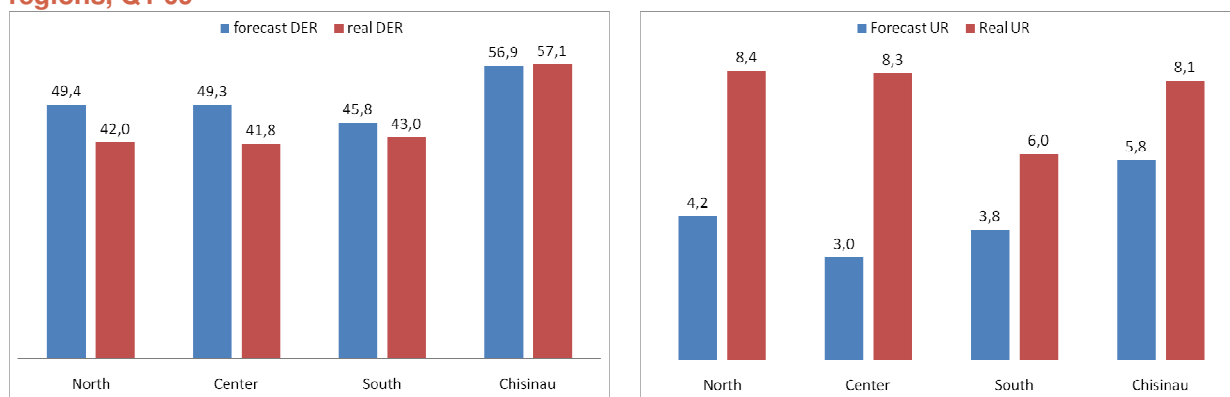
The evolution of employment rate and unemployment varied much by regions, as displayed in the Chart 5, Chart 6 and Table 2. Employment rate of the population has significantly changed in the North and Centre of the country – a decrease by 7.5 p.p. The employment indicator in Chisinau has not changed dramatically (+0.2 p.p.). However this does not mean that the labour market has not been affected (the crisis contributed to a soaring unemployment rate by 2.3 p.p. in Chisinau).

Chart 5 Evolution of DER in Q1'07-Q1'09, by statistical regions



Source: NBS and authors' calculations and forecast;

Chart 6 Real and forecasted values of derived employment rate and unemployment rate, by regions, Q1'09



Source: NBS and authors' forecast;

Table 2 Regional differences between real and forecasted value of DER and UR in Q1'09, percentage points

	Total	Men	Women	Urban	Rural
DER - Derivative Employment Rate					
North	-7,4	-9,9	-5,3	-2,0	-10,7
Centre	-7,5	-8,5	-6,6	-12,1	-6,3
South	-2,8	-1,4	-4,2	-3,6	-2,4
Chisinau	0,2	-0,8	+1,1	-1,1	
UR - Unemployment Rate					
North	+4,2	+6,1	+2,3	+4,4	+3,7
Centre	+5,3	+7,5	+2,9	+8,9	+4,0
South	+2,2	+4,5	-1,6	+2,4	+1,6
Chisinau	+2,3	+3,4	+1,1	+2,1	

Source: Authors' forecast based on NBS data;

In general, the smaller employment rate translates into fewer available jobs. At the same time, employee dismissals are tools that companies use only as a last resort. Instead, companies reduce work time or salaries. The employment rate does not reflect these details. An additional set of indicators will be analyzed further on to show the changes in the work environment and other aspects.

Changes in the work environment

Work-schedule

The immediate impact of the shrinking economic activity on labour market indicators is smaller than the number of labour hours per week. The estimates on the impact of the crisis can be obtained when comparing the average duration of the work hours per week in Q1'09 with the forecasts according to the dynamic model (Table 3).

Table 3 Difference between the real and forecasted value of the work hours per week in Q1'09, %

	Total	Agriculture	Industry	Construction	Trade&Services
Total	-2,5	-11,7	-7,3	-6,6	-0,4
North	-3,3	-6,5	-8,7	-2,8	-2,8
Centre	0,1	-2,6	-4,0	-2,6	0,6
South	-5,2	-12,8	-0,7	-*	-2,9
Chisinau	0,8	-5,8	-2,4	-2,4	1,9

Note: * - not enough observations;

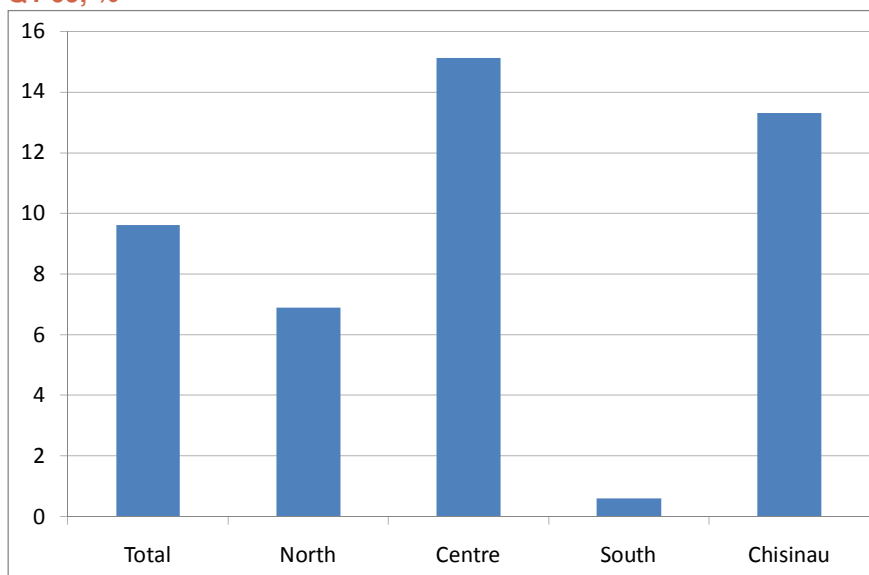
Source: based on authors' model and forecast;

The crisis shortened the previous average working week (37 hours) by 2.5% (1 hour). All economic sectors and regions have been hit in this respect by the crisis. The impact is much stronger in agriculture and industry. While at the national level, the average number of hours worked in trade and services has not changed, there are significant changes across the country. The positive impact of +1.9% for the Chisinau municipality and +0.6% in the Centre may not necessarily be beneficial because longer working hours do not automatically convey an increase of salaries. This is particularly true in the trade sector where a significant part of time is spent for "waiting clients/orders", which is passive work. From such a perspective, the 1.9 p.p. increase is less beneficial as employees have to work longer hours waiting for clients/orders which diminished proportionally. In any case, longer working hours in Chisinau are practically offset by shortened time-schedules in North and South.

Underemployment

Underemployment is a phenomenon directly related to the shrinking number of working hours. A person is considered under-employed if he/she worked less than 40 hours per week, or wished to work more hours but did not have the option. The estimated impact of the financial crisis on the number of underemployed persons in Q1'09 is +9.6% (reaching 96.9 thousand people). The impact varies essentially across the regions, as shown in the Chart 7. The highest rates of growth in underemployment have been registered in Centre and Chisinau city areas. To some extent, this is congruent with the fact that in Chisinau the longer working hours represent "passive" work and that people would like to have more "actively working" hours to gain more revenues.

Chart 7 Difference between the real and forecasted value of the number of underemployed in Q1'09, %

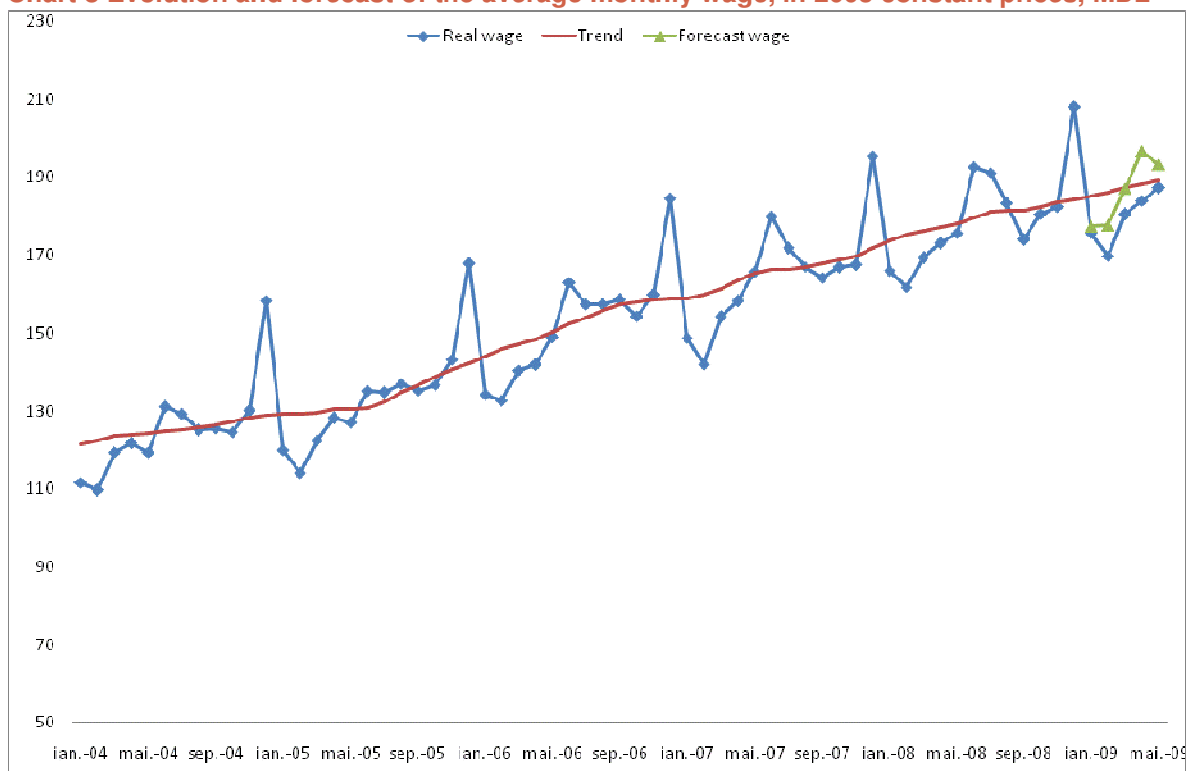


Source: authors' calculations and forecasts

Wages

National Bureau of Statistics calculates the average monthly wage per economy based on the data provided by enterprises which employ 20 or more people. Using data from the past 5 years, it can be estimated that in Q1'09 the overall impact of the crisis was ... +3%. This would appear as something meaningless at first sight. Indeed, since January 2009 the average wage has grown constantly according to the NBS data (Chart 8). It has to be mentioned that these figures have been widely questioned by many analysts in Moldova.

Chart 8 Evolution and forecast of the average monthly wage, in 2003 constant prices, MDL

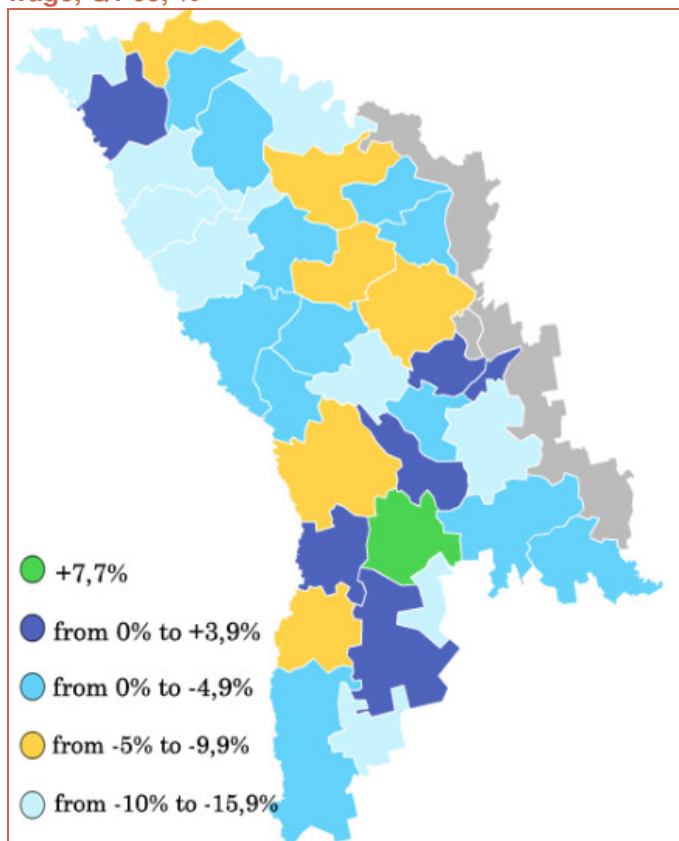


Source: NBS and authors calculations and forecast;

In fact, the NBS correctly calculates the average monthly wage, but its figures are misinterpreted. The average wage is calculated by the NBS by dividing the overall wage bill reported by companies to the number of employees who worked during the reference period. In a dynamic series, the average wage can increase strongly even if the wage bill grows modestly or even remains stable while the number of employees decreases at the same time. This is exactly the evolution registered in Q1'09, when the number of employees who worked effectively decreased by 5% compared to Q1'08. During the same period, the wage bill increased only by 4%, but this translated in a relatively high wage growth. It has to be reminded that NBS calculations are based on statistical reports provided by enterprises with 20 or more employees and that situation can change for worse if micro- and small enterprises would be counted for.

Taking into account our methodology for estimating the crisis impact, the average wage paid in companies with 20 or more employees in fact decreased by 4% in Q1'09. This decrease may appear as of little significance, but another 4% of employees did not receive their salaries at all, due to lack of work load. As shown by the Chart 9, there are significant regional discrepancies of the wage decrease rate.

Chart 9 Regional differences between the real and forecasted value of the average monthly wage, Q1'09, %



Source: authors' calculations based on NBS

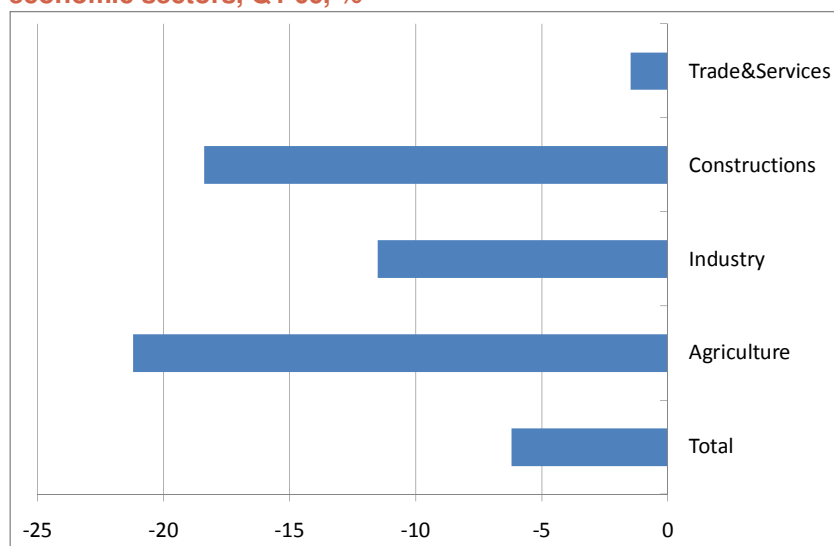
In 7 of the 35 territorial units of the country (32 districts, 2 municipalities and Gagauz-Yeri) there has been a positive impact of the crisis on the average salary because, as explained above, there were fewer employees, and the wage fund remained almost unchanged (this could happen for various administrative reasons). The highest positive value of the "crisis impact" on wages was registered in the Cimislia district, +7.7%. In most of the country territorial units (including Chisinau and Balti municipalities) the wage impact registered negative values ranging from -0.3% in Soldanesti to -15.4% in Briceni.

In the Northern part of the country, there is a particular concentration of districts where the negative growth of the salaries registered the highest rate. This is probably explained by the fact that these districts are more dependent on industrial sector where wages have declined more abruptly than in the agricultural one which is dominant in the Southern region.

Closing jobs as effect of the financial crisis

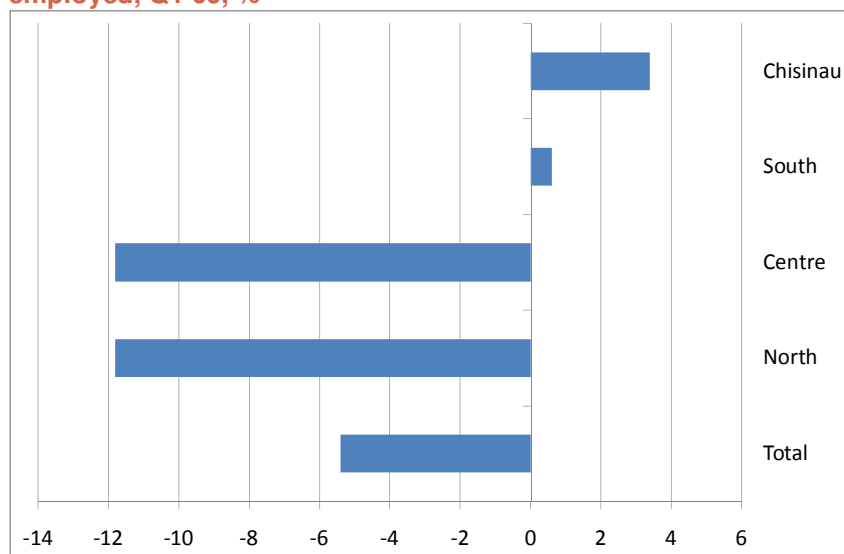
Indirectly, the evolution of the employment rate reveals the reduction of the available jobs. In order to assess directly the impact of the crisis on number of available jobs, it is necessary to examine the impact of the crisis on the number of employees by sectors of the economy (as reported by companies providing statistical reports to the NBS). According to our estimates, approximately 70,000 people did not have a job because of the crisis, which is 6% of the number of people who would have a job under normal conditions. The number of jobs remained almost unchanged in trade and services (Chart 10).

Chart 10 Difference between the real and forecasted value of the number of employed by economic sectors, Q1'09, %



Source: authors calculations

Chart 11 Regional differences between the real and forecasted value of the number of employed, Q1'09, %



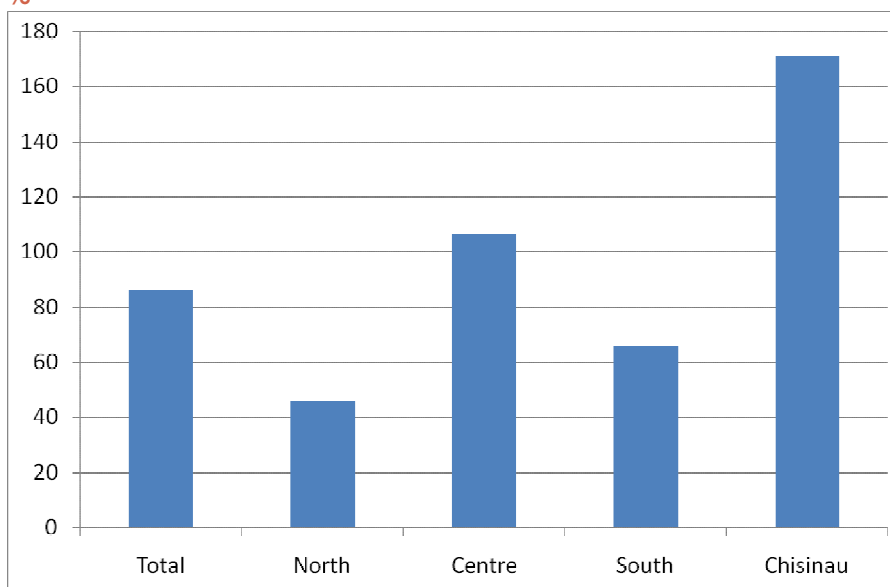
Source: authors calculations

The highest decline in the employment rate has been registered in the Northern region (Chart 11). The impact of the crisis in the Southern region was less significant and it had a positive outcome in Chisinau. A potential explanation for the Chisinau exception is that in times of crisis people seeking a job accept easily available positions with smaller salaries, and in Chisinau there are plenty of such poorly-paid jobs.

Crisis discouraging people on the labour market

According to the LFS methodology, discouraged persons are economically inactive people who would like to work, but do not undertake any measures for seeking a job, because they think they will fail (after making some attempts to find a job). The estimated impact of the crisis on the number of discouraged persons is displayed in the Chart 12. Taking into account that the indicator itself is not big (38 thousand people in Q1'09), it is clearly that it has significantly increased. Surprisingly, the biggest increase happened in Chisinau, where people seem to be particularly pessimist about the possibilities of finding a decent job on the market.

Chart 12 Regional differences between real and forecasted value of the number of discouraged, %

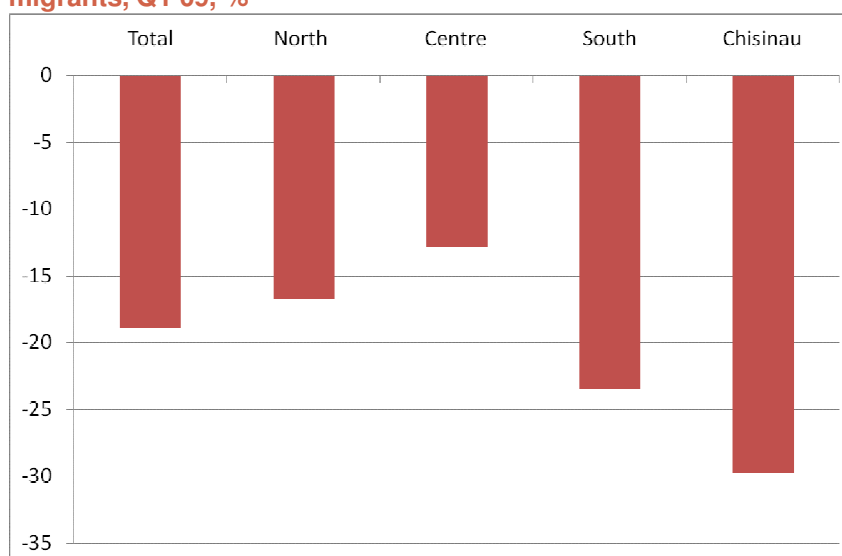


Source: authors' calculations

Crisis and returning migrants

As mentioned before, people who left the country seeking a job abroad are considered economically inactive on the Moldovan labour market. If these people decide to come back and seek employment at home they become economically active and thus contribute to increasing the pressures on the domestic labour market. This is another way in which the world financial crisis influences the Moldovan labour market. The Chart 13 shows the difference between the real and forecasted value of the people expected to be abroad in the first quarter of 2009.

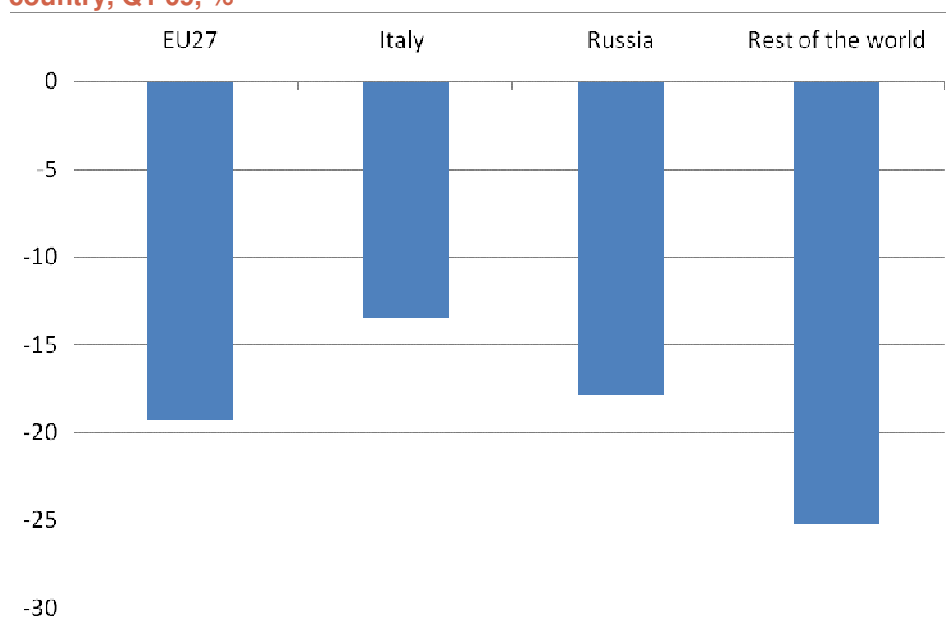
Chart 13 Regional differences between the real and forecasted value of the number of migrants, Q1'09, %



Source: Authors' calculations

In urban areas, the value of the impact on number of migrants was -23.4%, while in the rural area -17.0% (even though in absolute terms the latter dominate). Migrants from rural areas are less inclined to come back as they do not expect to find a decent job in their villages. The impact of the crisis on migration varied much by different host countries (Chart 14). From the two most important countries which host 80% of Moldovan labour migrants – Russia and Italy – the former was affected the most. Based on the LFS data for the Q1'09 it can be assessed that due to the crisis approximately 37 thousand people left Russia and about 8 thousand left Italy (in Q1'09, situation may have worsened in Q2'09).

Chart 14 Difference between the real and forecasted value of the number of migrants, by host country, Q1'09, %



Source: Authors' calculations

It is very unlikely that people who lost their jobs abroad will remain economically inactive in Moldova for long time. Most of the returning people are men and are rural residents and most

of them are willing to work. I.e. the unemployment rate is expected to rise for this group of people.

5. Impact of the financial crisis on local budgets and local public administration

Introduction

In a basic theoretical framework, one would expect that the impact of the global financial crisis would translate onto the local public budgets in Moldova in two ways:

- Through declining governmental transfers;
- Through lower own revenues;

At the same time the reducing revenues will impose the local public authorities to adopt two basic measures:

- In the context of a declining economy and with low access to the (quite shallow) domestic financial market, most of the local authorities whose budgets have been affected would be expected to cut some expenditures.
- Some of the local authorities would be able to use positive balances from the previous years to smooth the negative impact of the crisis, but this option would be available only for a few communities.

Financial short-sightedness

Despite the abundance of indications of the approaching economic crisis in second half of the 2008, the Moldovan government came up with surprisingly positive projections for the 2009 national public budget. Revenues were expected to grow at about 10% compared to 2008 and the budget deficit was set at 1% of GDP. However, in the first months of 2009 it already became clear that these targets have little chance of being achieved. In the first four months of the year, the budget revenues were fulfilled at 93% compared to the plan (92% compared to 2008), while expenditures at only 78% (109% compared to 2008)¹¹. The reduction in revenues is determined by the slowdown in domestic economic activity and the steep decline in imports (during the first four months of 2009 imports dropped by 32% compared to the same period of 2008). The situation is further complicated by the need to increase social spending to mitigate the impact of the crisis on the poor people. This will result in a higher fiscal deficit. According to the IMF projections, the budget deficit will increase to above 11% of GDP in 2009¹². The government has confirmed that the budget deficit for the year will account for 9% of GDP¹³.

Since the tax burden in Moldova is already quite high, mobilizing additional resources through higher taxation may not be optimal or even achievable at all. In fact, as suggested by interviews, many companies are moving a part of their activity into the shadows. That is, if fiscal pressures continue, they will be even more inclined to operate unofficially. To overcome this situation, the government would be wise to make significant expenditure cuts. One would have expected the government to propose budget rectifications to the Parliament before its dissolution in June 2009. However, because of political reasons the incumbent government decided to postpone budget modification until fall. In the meantime, the Ministry of Finance (MoF) has sent "recommendations" to both central and local public institutions to

¹¹ It is interesting to note that the revenue projection for the first semester is lower than in the second semester. This means an even worse real budget performance in the first five months than the one shown by the current figures.

¹² <http://www.imf.md/press/pressw/press-090610.html>

¹³ www.gov.md

cut expenditures. Thus, in April, the MoF has issued a letter to local public authorities informing them about a 20% cut in transfers received from the state budget. Since the reduction in transfers has not been adopted by the Parliament and it cannot be considered legal, the Ministry has begun to accumulate arrears towards local budgets. Similar “advice” is given to central public institutions. Obviously, some possibilities to reduce expenses by more optimal expenditure exist; however, these might not suffice the need. The main issue is that the real reforms, which would have increased the efficiency of public spending in the mid- to long-term, have been procrastinated for years, both at local and central level. The huge number of public employees (especially in education and health sectors) that combined with the recent wage increases made the task of balancing revenues with expenditures extremely challenging. On the other hand, cutting the expenditures for public investment is not a desired solution, given the limited investment in the past and the economic growth-stimulating nature of these expenditures. Nevertheless, there are public investment projects which are not the most relevant and some rationalization could be made within these expenses as well.

Relationship between the state budget and local budgets

The Law on Local Public Administration grants responsibility to local authorities to elaborate, approve and execute local budgets¹⁴. They can establish local taxes and duties in compliance with the Law on Local Public Finances and other legislative acts. The executive authorities of villages, communes and towns elaborate local budgets and submit them to local councils for approval, which are subsequently submitted to the district councils. Based on the local councils’ budgets, the district budget is formulated and submitted to the MoF for review and approval. After the approval of the state budget by the Parliament the local budgets are adjusted, if necessary, and approved in the final version.

Local authorities of the first level (communes) are responsible for financing general education, housing and communal services, transport subsidies, some social allowances, payment of salaries to local public servants, municipal police and support to local enterprises. The district authorities are responsible for financing the construction and maintenance of roads and public assets (including medical institutions), provide some public goods (fire brigade), education (lyceums, boarding schools, vocational schools, music schools), culture and social assistance.

Districts play an administrative and regulatory role in financial relations between the state budget and local councils. Their main functions include distributing transfers from the state budget to local budgets, executing certain local authorities’ functions at the district level, aggregating local councils’ budget execution data reported to them by the local councils and reporting these aggregated data to the Ministry of Finance. Despite last years’ rhetoric about the need to increase their administrative and financial independence, in reality, the district authorities have little autonomy in fiscal-policy decision making and they end up executing central authorities’ orders. The accountability continues to remain hierarchical and vertical, rather than to the local constituency.

As compared to the state budget, local budgets are very limited in their ability to mobilize revenues. This is due to the depressed economic activity in most of the districts, but also to the deficient system of distributing revenues from taxes between the central and the local budgets. The local authorities’ budgets depend heavily on the transfers from the state budget and this dependence has been growing over time. In 2008, more than 50% of the total

¹⁴ For the purpose of this paper, “local budgets” means the budgets of territorial administrative units

administrative territorial units' expenditures were financed by state budget transfers¹⁵, which is 10 percentage points more than in 2005. As a share of total public expenditures, local spending has been decreasing. In 2009, local budgets' expenditures were planned at about 34% of the state budget expenditures, compared to 46% in 2006.

There are two important types of transfers to the local budgets. The most important is from the Financial Support Fund: in 2008 these transfers represented 81% of the total transfers. The Financial Support Fund is formed from the state budget allocations and allocations from the local budgets whose budgetary revenues exceed by at least 20% the average expenditures per capita. The amount of Financial Support Fund transfers is determined as the difference between the average per capita spending (which is calculated for each article of expenses) and the per capita revenue multiplied by the total number of people. Thus, the existing transfer system ensures a similar expenditure level across the districts regardless of the revenue generation capacity. Also, the financial support transfers are calculated based on normatives elaborated by the Ministry of Finance. In reality, the normatives do not account for the exact demographic figures (for ex. number of children in schools or kindergartens) and allow some villages to "save" some funds which they can use next year.

According to the law, the second type of transfers (earmarked transfers) includes allocations for additional functions delegated by the government or compensations for loss of revenues due to changes in legislation or in the territorial administrative structure. In reality, these transfers usually finance investment projects. In 2008, these transfers accounted for 15% of the total. The share of these funds in the total transfers received by the local budgets varied from 58% for Balti municipality to 5% for Sangerei. Their allocation is seen by the beneficiaries as less transparent, with priorities identified at the local level being ignored in many cases by the government and replaced with projects which are considered to be politically motivated.

Impact of the crisis on local budget revenues

The share of own revenues in the total revenues of the local budgets has been decreasing over time. In 2008, these accounted for 47% of the total and only 29% if Chisinau municipality is excluded. In most of the districts this share was set to decline even more in 2009. There are few districts where own revenues account for more than one third of the total budget (see Table 4). Moreover, for most of them, this ratio has been declining in the last 5-6 years.

Table 4 The share of own revenues in the total revenues

District	2008 executed	2009 planned
Dubăsari	12%	13%
Nisporeni	15%	14%
Telenești	17%	16%
Călărași	18%	18%
Cantemir	18%	15%
Șoldănești	19%	17%
Sîngerei	20%	30%
Leova	22%	19%
Glodeni	23%	22%
Criuleni	23%	20%
Caușeni	24%	24%
Cimișlia	24%	22%

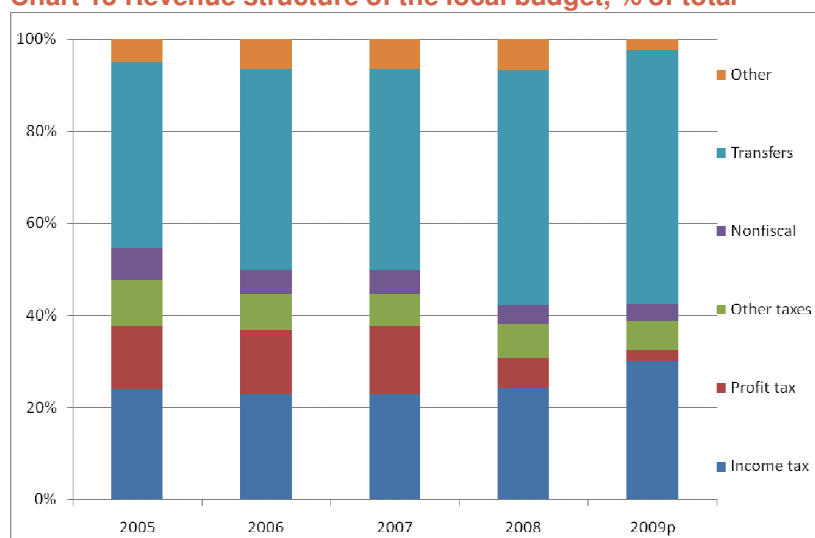
¹⁵ The situation is more dramatic if the budget of Chisinau municipality is excluded – 71% of the total spending

District	2008 executed	2009 planned
Făleşti	24%	21%
Ungheni	24%	25%
Ialoveni	25%	19%
Strășeni	25%	21%
Hîncești	26%	22%
Ștefan Vodă	27%	23%
Ocnița	28%	22%
Dondușeni	29%	22%
Orhei	30%	27%
Rîșcani	30%	17%
Anenii Noi	31%	27%
Basarabeasca	31%	28%
Drochia	32%	26%
Edineț	32%	28%
Florești	32%	27%
Soroca	32%	30%
Taraclia	32%	28%
Briceni	33%	25%
Cahul	36%	35%
Rezina	37%	37%
UTA Găgăuzia	47%	46%
Mun. Balti	54%	63%
Mun.Chisinau	93%	100%
Total	47%	48%

Source: MoF

Income tax makes for an important contribution in the local revenues and has been constant over the last four years (see Chart 15). Profit tax, which has also been an important source in the past, has decreased dramatically as a consequence of fiscal liberalization reforms implemented in 2007. Revenues from other taxes and nonfiscal revenues make for equal contributions and have largely been constant.

Chart 15 Revenue structure of the local budget, % of total



Source: authors' calculations based on MoF

The current economic crisis has been affecting revenues collected both at the local and central level. As of end of May 2009, almost half of the territorial administrative units had fulfilled collection plans regarding own revenues and half were behind the plan (see Table 5). During January – May 2009, overall income tax collections were fulfilled at only 85% mainly due to lower salaries and reduction in the number of employed people¹⁶. At the same time, collections from profit tax have been higher than expected, mainly because of the very low plan adopted in 2008. Nevertheless, interviewed local authorities indicated that the situation is going to change quickly as the effects of the crisis are being felt more and more by the local economic entities.

Table 5 Local budgets execution, 5 months 2009

District	Own revenues	Total revenues	District	Own revenues	Total revenues
Basarabasca	63%	76%	Ungheni	98%	86%
Hîncești	72%	80%	Glodeni	98%	88%
mun. Chisinau	78%	79%	Călărași	101%	87%
Leova	80%	81%	mun. Balti	102%	94%
Cahul	80%	85%	Caușeni	102%	89%
Rezina	81%	83%	UTA Găgăuzia	104%	96%
Ștefan Vodă	83%	82%	Fălești	106%	85%
Criuleni	86%	81%	Drochia	106%	89%
Dubăsari	86%	80%	Nisporeni	108%	85%
Telenești	87%	78%	Briceni	110%	87%
Strășeni	87%	77%	Florești	111%	88%
Orhei	87%	82%	Taraclia	112%	92%
Soroca	88%	85%	Dondușeni	114%	89%
Ocnîța	91%	74%	Sîngerei	114%	83%
Anenii Noi	93%	88%	Rîșcani	116%	91%
Șoldănești	94%	83%	Ialoveni	119%	89%
Edineț	94%	88%	Cantemir	134%	84%
Cimișlia	97%	84%	Total UAT	85%	84%

Source: MoF

During the same period, the state budget transfers were fulfilled at only 79.8% for financial support and 40% for investment projects. The announced 20% reduction in transfers, which will save the state budget about 4%, is affecting local budgets unequally. Districts which have a higher share of local revenues are less affected than those with a higher dependence on transfers. Also, budgets which had a positive balance at the beginning of the year are in a better situation than those which were fulfilled 100% in 2008. The same applies for village budgets.

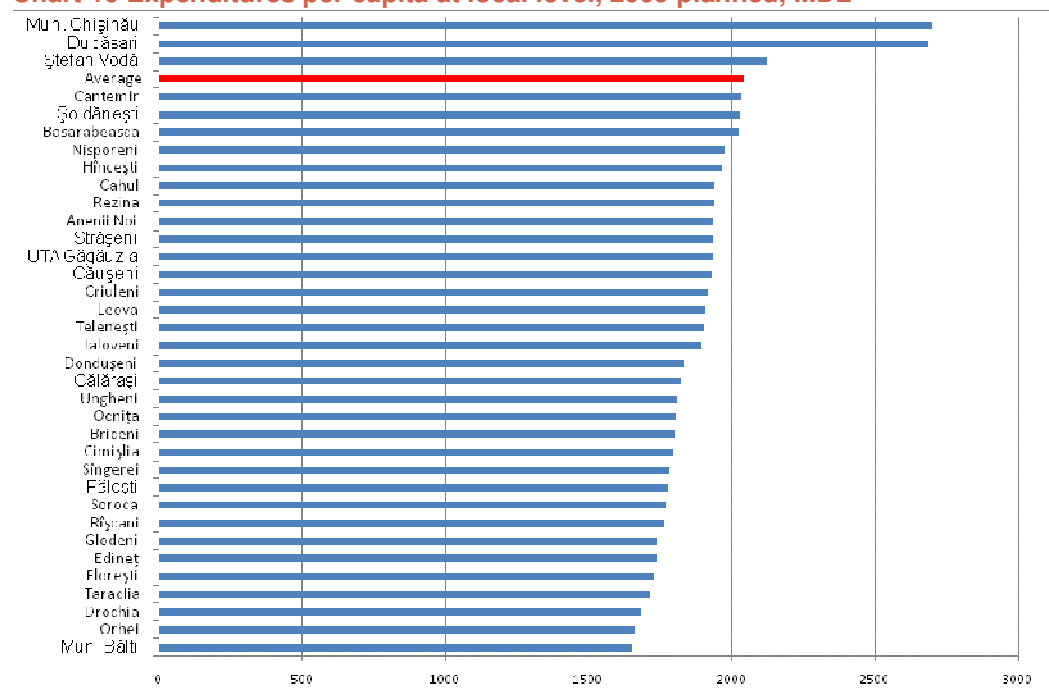
Given the high dependence on state budget transfers, the local authorities' possibilities to compensate for the reduction in revenues is limited. The increase in taxes and fees collected locally will not bring a sizable impact due to their low share and the overall decline in business activity. In this situation, the only possibility which is left is to reduce expenditures.

¹⁶ The increase in public sector wages in the first quarter could mitigate this impact to some extent provided that wages will be paid in time.

The impact of the crisis on the local budget expenditures

The egalitarian system of transfers does ensure a more or less similar level of per capita expenditures among districts with the only exceptions being Dubasari district and Chisinau municipality (see Chart 16).

Chart 16 Expenditures per capita at local level, 2009 planned, MDL



Source: MoF

Wages and contributions to the social and medical insurance funds are the main expenditure items of local budgets. In 2008, these accounted for more than half of the local budgets (see Table 6)¹⁷.

Table 6 The structure of local budget expenditures by economic classification

	Telenesti	Falesti	Ungheni
Wages and contributions for social and medical insurance	52.5%	54%	46.8%
Payments for goods and services	20%	20%	24%
Current transfers	8.5%	10%	9.4%
Capital expenditures	19%	16%	19.8%

Source: based on interviews with local stakeholders

Table 7 The structure of expenditures by economic classification in Telenesti district 2008

	Total district budget	District budget	Mayorality budgets
Wages and contributions for social and medical insurance	52.5%	39%	57%
Payments for goods and services	20%	15%	21%
Current transfers	8.5%	20%	4%
Capital expenditures	19%	26%	18%

Source: based on interviews with local stakeholders

¹⁷ Since the data is not available for the entire country, the situation is analyzed for 3 randomly selected rayons.

Payments for goods and services accounted for about 20% of the total expenses and include payments for communal services, teaching material, food supply, medications, current building and equipment reparations, etc. Capital expenditures account for another quarter and are financed partially from transfers and partially from local revenues. The share of salary expenses in the total budget is even higher for mayoralty level budgets (see Table 7).

The announcement on a likely 20% reduction in transfers has followed another decision of the government which called for an increase in wages for several categories of public sector employees. To finance this increase the government approved a supplement to transfers in the amount of 665.3 million lei, which is only slightly smaller than the requested expenditure cut (see Table 8). This has raised legitimate questions on the part of the local authorities about the appropriateness of the government decision to raise salaries when it was clear that these cannot be funded.

Table 8 Financial situation and perspectives for 2009 in Moldovan territorial units, thousand MDL, if not otherwise indicated.

	Total expenditures	Total transfers	20% reduction	Wage increase	Expenditure execution as of 1.06.2009	Amount left for the remaining 7 months after transfer cuts	% of the original budget	% of the modified budget ¹⁸
mun.Chisinau	2,120,281	161,941	32,388	146,115	664,264	1,423,629	67%	63%
mun. Balti	245,013	98,918	19,784	21,527	93,449	131,780	54%	49%
Anenii Noi	160,830	111,271	22,254	14,566	55,787	82,789	51%	47%
Basarabeasca	59,743	43,019	8,604	6,868	19,642	31,497	53%	47%
Briceni	137,210	105,464	21,093	17,430	46,365	69,752	51%	45%
Cahul	241,860	156,429	31,286	26,017	76,537	134,038	55%	50%
Cantemir	128,655	105,929	21,186	13,833	41,103	66,366	52%	47%
Călărași	144,498	113,346	22,669	12,893	52,349	69,480	48%	44%
Caușeni	179,177	135,521	27,104	20,264	58,663	93,409	52%	47%
UTA Găgăuzia	309,109	175,894	35,179	35,224	112,825	161,106	52%	47%
Cimișlia	112,557	85,887	17,177	10,025	36,990	58,389	52%	48%
Criuleni	139,681	111,045	22,209	14,666	46,842	70,630	51%	46%
Dondușeni	84,137	65,931	13,186	8,735	26,816	44,134	52%	48%
Drochia	153,108	113,562	22,712	15,517	52,821	77,575	51%	46%
Dubăsari	94,647	79,542	15,908	6,753	33,871	44,868	47%	44%
Edineț	145,325	103,638	20,728	16,959	52,027	72,571	50%	45%
Fălești	165,800	129,648	25,930	16,193	56,852	83,018	50%	46%
Florești	157,423	115,983	23,197	15,686	51,921	82,306	52%	48%
Glodeni	108,685	84,526	16,905	11,863	35,155	56,625	52%	47%
Hîncești	242,588	178,306	35,661	19,516	73,069	133,858	55%	51%
Ialoveni	186,498	139,803	27,961	16,134	65,910	92,627	50%	46%
Leova	102,623	81,214	16,243	9,595	33,296	53,085	52%	47%
Nisporeni	132,765	109,073	21,815	9,824	43,381	67,570	51%	47%
Ocnîța	102,020	77,359	15,472	9,923	33,868	52,680	52%	47%
Orhei	209,748	146,969	29,394	22,096	68,885	111,469	53%	48%
Rezina	102,809	66,276	13,255	10,713	34,899	54,656	53%	48%
Rîșcani	125,207	92,782	18,556	13,416	42,305	64,345	51%	46%
Sîngerei	167,404	134,418	26,884	17,433	54,961	85,559	51%	46%
Soroca	179,078	127,810	25,562	17,816	58,664	94,852	53%	48%
Strășeni	177,023	132,189	26,438	16,966	58,927	91,658	52%	47%
Șoldănești	88,892	73,523	14,705	9,359	29,312	44,876	50%	46%
Ștefan Vodă	153,543	113,523	22,705	16,148	55,063	75,775	49%	45%
Taraclia	76,441	57,422	11,484	9,785	26,438	38,518	50%	45%
Telenești	142,326	118,078	23,616	14,024	47,983	70,727	50%	45%
Ungheni	212,209	160,959	32,192	21,457	80,777	99,241	47%	42%
Total UAT	7,288,912	3,907,195	781,439	665,336	2,422,016	4,085,457	56%	51%

Sources: MoF

¹⁸ The increase in spending due to the increase in wages

Although the government left it to the local authorities to decide what expenditures to cut, the indication was that these should not affect salaries. Wage expenditures as a share of total budget, already very large, have grown up even more due to the recent increase in salaries, thus further limiting the local authorities' possibilities to optimize expenditures. In addition, the cut was announced only in April when the local budgets had already signed different contracts and committed money for investment projects. According to district authorities' estimates, if the cut in transfers is to be applied, the other expenditures (mainly payments for goods and services) will have to be reduced by 40–60%. This will necessarily affect payments for communal services to public institutions, including schools and kindergartens, and will have a negative impact on the municipal institutions rendering these services. The incapacity to continue with the launched investment projects will affect local economic entities involved in the implementation of these projects. In a more difficult position are districts with projects initiated last year but with the bulk of funding planned for this year (such as in Ungheni).

Local authorities have reacted differently to the current budget crisis and to the government's response policy. Although the government indication to cut expenditures is illegal until it is approved by the Parliament, local authorities do realize that the cuts will need to be made in any case, especially since the Ministry of Finance is already transferring only part of the due amounts. Some districts have considered potential reserves; these include investment projects financed from the local budgets, travel expenses, other logistics spending. However, these cannot compensate for the needed 20% reduction in transfers. At the same time, decisions which could bring more savings are not the prerogative of local authorities. For instance, the decision to close/merge schools or kindergartens can be made only by the Ministry of Education and Youth. Also, personnel reduction policies cannot be applied since these will lead to increase in funds in the short term (because of the compensatory payments necessary to be done when a person is fired). To cope with the situation, local authorities will need to make only partial payments for salaries.

While the government kept quiet about the approaching crisis before the elections, some districts proactively sent recommendations to the central authorities on how to mitigate its impact. These recommendations called for providing support to SMEs, urging the implementation of the regional policy, extending support to vulnerable categories, etc. Also, some communities have adjusted their annual plans to accommodate the new realities before the government has announced its anti-crisis program (see next section). Nevertheless, as mentioned above, local authorities are very limited in their options to increase the efficiency of public spending or to provide support to the private sector¹⁹. In the absence of good cooperation with central authorities, there is very little that these authorities can do.

Relevant case study: the budgetary situation of Telenesti district

Telenesti is a small district which makes for 2% of the total territorial units' spending and whose own revenues account for only 16% of its expenditures (2009). Given that the possibilities to raise additional revenues are very low²⁰, the district authorities made an attempt to improve the distribution of transfers among the localities. During the 2009 budget preparation process, local authorities conducted an analysis of spending in schools, kindergartens and cultural institutions during the last two years and developed specific normatives of spending for each institution separately. In general, this has led to higher

¹⁹ Although the Law on entrepreneurial activity allows local authorities to create support funds, the Law on Local Public Finances prohibits this

²⁰ As mentioned above, the current transfer mechanism does not motivate local authorities to facilitate the development of businesses at the local level, but even where this willingness exists, significant impediments are posed by central authorities

spending needs than showed by the MoF's norms, but reserves to reduce spending have also been identified in some institutions. The difference in calculations using the Ministry of Finance and locally developed normatives come from lower than officially assumed number of pupils in school classes, higher coefficient of enrolment in kindergartens and the need for additional resources to support artistic groups. While developing the specific normatives, priority has been given to wages, spending for communal services, other current expenditures. This has led to some redistribution of funds between the district villages, making the local transfer mechanism more equitable.

Table 9 Telenesti budget distributed by district communities, 2009, thousand MDL²¹

	Total expenses	Apparatus	Kinderg.	Schools	Culture	Buildings mainten.	Other	Covered from	
								own revenues	transfers from district budget
Telenești	8402.6	7%	24%	47%	8%	1%	13%	35%	65%
Bănești	4080	7%	28%	50%	6%	1%	9%	7%	93%
Bogzești	1260	17%	17%	40%	9%	3%	14%	6%	94%
Brînzani	3643.9	7%	19%	59%	7%	1%	6%	11%	89%
Budăi	2677.1	10%	31%	40%	6%	2%	11%	5%	95%
Căzănești	3932.5	7%	28%	46%	6%	1%	11%	14%	86%
Chiștelnița	3974.7	7%	21%	53%	7%	1%	11%	10%	90%
Chițcani-	3009.9	9%	24%	52%	7%	1%	7%	9%	91%
Ciulcani	2305.7	12%	19%	55%	5%	1%	8%	6%	94%
Cîșla	1453.9	19%	21%	48%	5%	3%	5%	5%	95%
Codru-Nou	1359	20%	24%	43%	4%	3%	6%	5%	95%
Coropcenii	2180	10%	27%	45%	5%	2%	11%	4%	96%
Crăsnășeni	1736.1	12%	24%	46%	6%	3%	10%	9%	91%
Ghiliceni	3269.4	8%	28%	48%	6%	1%	8%	7%	93%
Hirișeni	2162.1	12%	24%	48%	6%	2%	7%	7%	93%
Inești	2707.1	10%	24%	49%	7%	2%	8%	7%	93%
Leușeni	2157.4	13%	22%	47%	7%	2%	10%	7%	93%
Mîndrești	4650.7	7%	23%	50%	8%	1%	11%	10%	90%
Negureni	3832	7%	24%	52%	6%	1%	10%	9%	91%
Nucăreni	1379.4	16%	23%	48%	6%	3%	5%	10%	90%
Ordășei	1416.1	15%	2%	70%	6%	3%	5%	14%	86%
Pistruieni	2028.2	13%	16%	59%	5%	2%	5%	8%	92%
Ratuș	1928.7	17%	2%	63%	8%	2%	8%	7%	93%
Sărăteni	3207	8%	19%	55%	7%	2%	9%	12%	88%
Scorțeni	2627.5	12%	17%	55%	7%	2%	6%	9%	91%
Suhuluceni	3016.7	9%	29%	50%	6%	2%	4%	5%	95%
Tîrșiței	2222.4	12%	21%	49%	7%	2%	9%	12%	88%
Țanțăreni	2211.4	15%	3%	67%	7%	2%	7%	9%	91%
Văsieni	1719	13%	23%	47%	6%	2%	9%	6%	94%
Verejani	2977.5	11%	17%	50%	8%	1%	13%	9%	91%
Zgărdești	1376.6	16%	9%	58%	5%	2%	9%	12%	88%
TOTAL	84904.6	10%	22%	51%	7%	2%	9%	11%	89%

Source: Telenesti district authorities

The district includes 30 villages and the town of Telenesti. The dependence of local budgets from district transfers varies from 65% in Telenesti to 96% in Coropcenii village (see Table 9). Respectively, the villages with higher dependence will suffer more from the cut in transfers. Again, the possibilities of local mayoralties to accommodate the transfer cuts are limited

²¹ The data do not include the increase in the budget due to the wage increase approved in 2009

given that some optimization of spending has been already done through the application of new normatives starting with 2009. Moreover, education expenses account for an important share of the total expenses. For example, in the case of Coropcenii village, the spending in education accounts for 89% of the total after a 20% reduction in transfers is applied. This leaves very little for other categories of spending. A similar situation is seen in several other villages.

In response to this situation, the district authorities, in consultation with village mayors, decided to revise again the normatives of spending and to enforce lower normatives for the villages that have high budget constraints. In a way, this goes back to the less equitable system of transfer distribution, but also puts pressure on the villages authorities to increase own revenues. The district authorities have also decided to reduce the capital spending financed from local sources, which however does not make for significant savings. The raise in some local taxes and fees was considered but rejected due to the already low business activity in the region and the insignificant gains this could bring in the short term.

6. Impact of the financial crisis on households

Introduction

Households, as one of the major components in any economic system, inevitably feel the repercussions of the world financial and economic crisis. The fundamental role of households in the economic circuit is determined by the fact that this sector creates demand for goods and services. Households are expected to be affected by the financial and economic crisis through:

- Changes in the economic sector both at home and abroad (decrease in wages, increase in unemployment, declining remittances);
- Changes in the public sector (delay or reduction in payments of public wages, but also less public investment in infrastructure influencing individual and community wellbeing);
- Changes in the social sectors (delay or reduction in social assistance transfers, and also less attention devoted to the social and community problems);
- All these changes are expected to be followed by some adaptation measures from the part of the households, mainly in the form of strategies aimed at recovering the level of income or adjusting the households' consumption and investment expenditures.

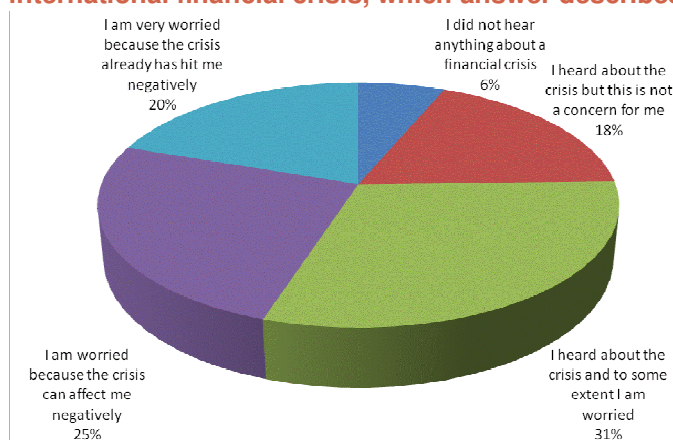
The decrease in final consumption caused by the crisis' impact on households can be treated as an important contamination channel, affecting the economic sector (decrease in domestic demand), and the social and public sector (decrease in VAT revenues to the state budget). A vicious circle takes shape between the productive sectors affected by the decrease in domestic demand and the households affected by the decrease in income or even staff cuts in many enterprises. Besides, there are many other reasons households in Moldova felt the crisis repercussions, which will be discussed below. The assessment will be based on the data of the nationally representative social opinion poll conducted in July 2009 with 1100 respondents from entire country (except Transnistrian region) based on structured questionnaires on the crisis impact.

Households perceptions regarding the crisis

According to the survey, Moldovans perceive that the current world economic and financial crisis has negatively impacted their lives. Only 6% of the country's population did not hear anything about the global financial crisis and 18% are not concerned at all about the crisis. One quarter of the respondents are worried because the crisis can affect them and 20% are very worried because they have already been hit by the crisis (Chart 17). In most cases, these concerns are not new but a fact of life and for only 11% of the respondents did these concerns emerge in the last 1-3 months.

The general perceptions regarding the crisis repercussions on the country as a whole are quite split. Of those 75% that feel a negative personal impact, about 3% of responders think that Moldova as a country was not affected because "it does not depend on the international situation". About 19% said that Moldova suffered to a limited extent because "we have been always in crisis", while other 9.7% answered that "there is nothing to lose for Moldova". This statement was heard also during in-depth interviews with local experts and focus-groups. More than 19% of respondents chose the answer "Moldova suffered very much, more than other countries in the region" and the relative majority – 21.2% - said that "Moldova suffered very much, the recovery will be difficult".

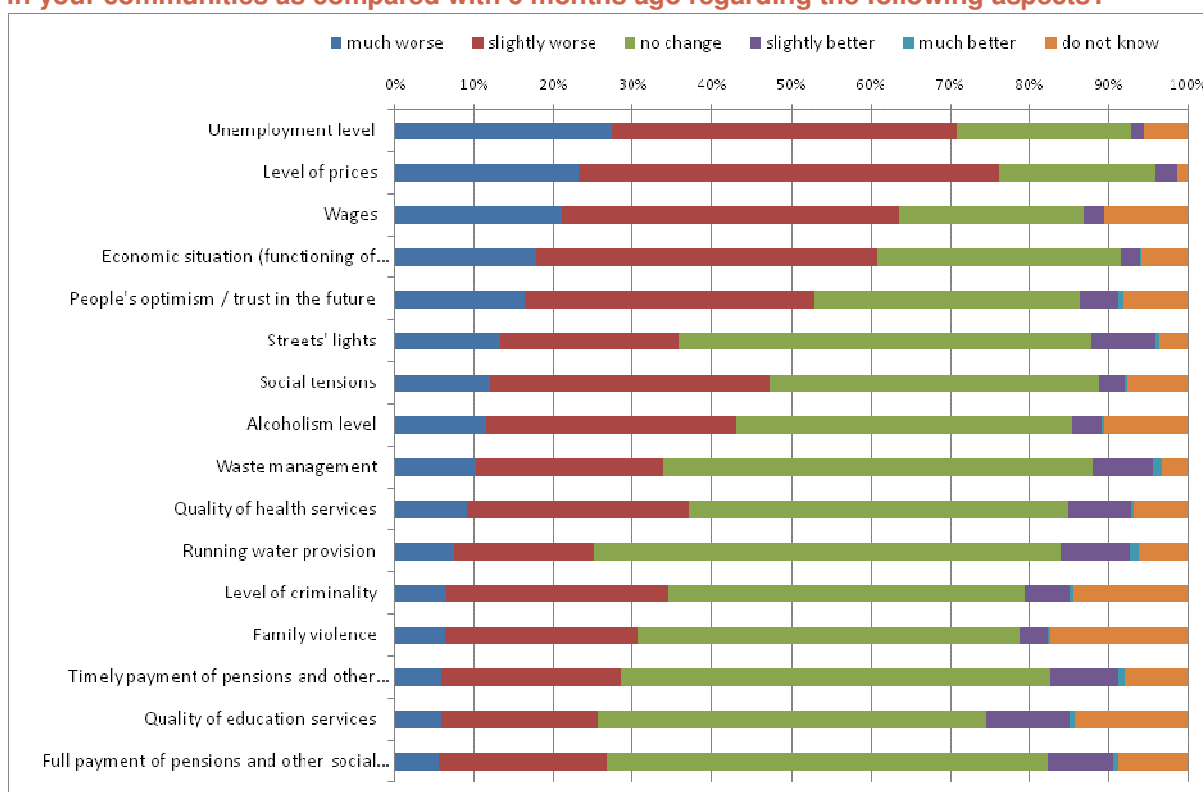
Chart 17 Distribution of the valid answers to the question “Speaking about the current international financial crisis, which answer describes best your feelings?”



Source: sociological survey

The on-going financial crisis is likely to have influenced the population's negative perceptions regarding the situation in their communities (Chart 18). Citizens perceive a worsening of situation in most aspects of life at the community level. The most negative responses are perceptions regarding economic parameters: changes in unemployment, level of prices, wages and the general economic situation (functioning of companies, shops etc.). Negative and extremely negative perceptions exceed 60% on these four issues. Moderately negative perceptions (between 30% and 60%) prevail in case of public services: street lights, waste management, health services. There are some signs of a worsening social situation, as shown by rather negative perceptions regarding the changes in social tensions, alcoholism level, level of criminality and family violence. Interestingly, respondents' perceptions are consistently more negative in urban areas than in rural ones. This can be explained by the fact that economic growth in Moldova has been urban-biased in the last decade, therefore it would be reasonable to expect that the economic crisis would affect the urban economies more than rural ones in terms of share of lost income.

Chart 18 Distribution of answers to the question “To your opinion what is the current situation in your communities as compared with 6 months ago regarding the following aspects?”



Source: sociological survey;

With such a pessimistic distribution of answers regarding the community situation, it is no surprise that for most of the Moldovan households the on-going financial crisis means high psychological pressures and not only deep economic impact. As Table 10 shows, for one-third of the people, crisis mean first of all lack of confidence in future, one quarter are afraid of poverty, while 11.5% suffer of psychological stress and of an impasse feeling.

Table 10 Distribution of answers to the question „For you personally or for your family what does the current financial crisis mean?” (multiple answers), %

Psychological stress and feeling of impasse	11.5
Lack of confidence in future	32.0
Fear of poverty	25.6
You have lost your job	5.5
You are afraid of losing the job	4.1
Your wage was cut	5.6
You are afraid of wage cut	3.2
Relatives from abroad do not send money home	1.3
Relatives from abroad send less money home	1.7
You did not succeed to find a job abroad	1.1
You had to return home from your job abroad	1.0
Pensions and other social payments are not paid on time	2.1

Source: sociological survey.

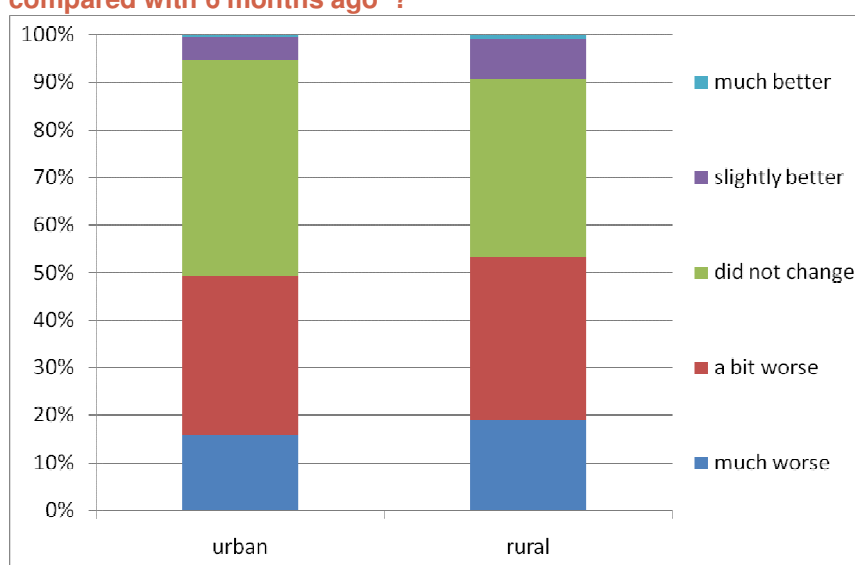
Who suffered the most?

Generally, those mostly affected by the crisis are people aged 30-59 with an active economic life and providing biggest part of their families' income. At the same time, in terms of self-perception, the least affected are pensioners which did not feel as intensely the impact of the

crisis. The depth of perceived impact of the crisis is directly related to the intensity of economic life of people. It means that those mostly affected by the current world financial turmoil are the employed or the owners of unincorporated (individual) enterprises, while the least affected are the pensioners or students. However, due to lower incomes and saving rates, the latter tend to be much more vulnerable to crisis repercussions. Interestingly, the survey has shown that people working abroad and poor residents are another two social groups perceived as particular vulnerable in the conditions of the ongoing crisis.

According to the conducted sociological survey regarding the crisis impacts on the households, 33.4% of interviewees stated that their financial situation during the last 6 months became worse and 17.6% - much worse (this option was chosen by 18.9% of respondents in rural area and by 15.9% in urban area, but generally distribution of answers to this question is quite similar in rural and urban areas, Chart 19).

Chart 19 Distribution of answers to the question “What is your present financial situation as compared with 6 months ago”?



Source: sociological survey;

By main source of income, there were identified 3 main groups of individuals which were mostly affected by the actual world financial and economic crisis:

Employees in the private/public companies and owners of unincorporated (individual) enterprises

The sociological survey results found that decreasing wages (26.5%), loss of employment (21.0%) and decreasing number of working hours (11.9%) are the major factors affecting the financial situation of the households. The data reveal that the most affected groups of employees are those from industry and construction sectors. Thus, 57.3% of individuals working in these sectors stated that their financial situation became worse or much worse during the last 6 months. Additionally, another highly affected group of households are those employed in individual enterprises (57.1% of these households affirmed that their financial situation became worse or much worse). Another group of employees which made the same statements are those working in family farms (52.6%) which directly refer to the decrease in domestic and foreign demand for agricultural products and foodstuffs. Additionally, it was caused by the accumulation of arrears of companies processing agricultural raw materials, especially wine-making factories, on payments due to these farms, as well by the increasing reluctance of commercial banks in crediting agricultural activities.

All in all, it is clear that the crisis repercussions on the economic sectors had immediate impacts on the financial situation of most of the households through the decrease in wages, staff cuts and the decrease in sales and cash flows especially for individual enterprises and family farms. The latter felt the crisis impact in different ways. Thus, for family farms one of the main reasons for a worsening financial situation is the decrease in prices for agricultural production caused by the financial difficulties in the enterprises processing these raw materials (mainly in wine-making factories and canneries). At the same time, the individual enterprises, which mostly activate in urban areas, were highly affected by the decrease in sales caused by the decrease in demand from households.

Beneficiaries of social assistance programs

The decrease in revenues to the state social insurance budget caused by the decrease in wages and staff cuts in the real sector, as well as the decrease in state budget revenues led to the delayed payments of social assistance transfers. Thus, 12.4% of relevant households mentioned the delayed payment of pensions and other social transfers. However, the beneficiaries of social assistance programs did not feel the crisis effects so intensively as those activating in the economic sectors. It was mainly due to the increase in pensions by 20% in April 2009 and the general propensity of budgetary expenditures towards social sphere, which became even more visible in the pre-electoral period. As a result, the survey showed that 48.7% of people aged 60 and above did not feel any changes in their financial situation during the last 6 months, whereas 9.3% affirmed that their situation even improved a little bit. It should be pointed out that this stability reveals the widespread social perception that Moldova has been in crisis for ages and, therefore, the effects of the actual world financial turmoil are difficult to be observed. Additionally, with the average pension covering only half of the minimum living cost of pensioners, and other social allowances even smaller, any deviations or delays in payments have immediate effects on the financial situation of the beneficiaries. Thus, despite the fact that so far this category of population has been less affected by the crisis, they certainly represent one of the most vulnerable social strata due to their low incomes and saving rates.

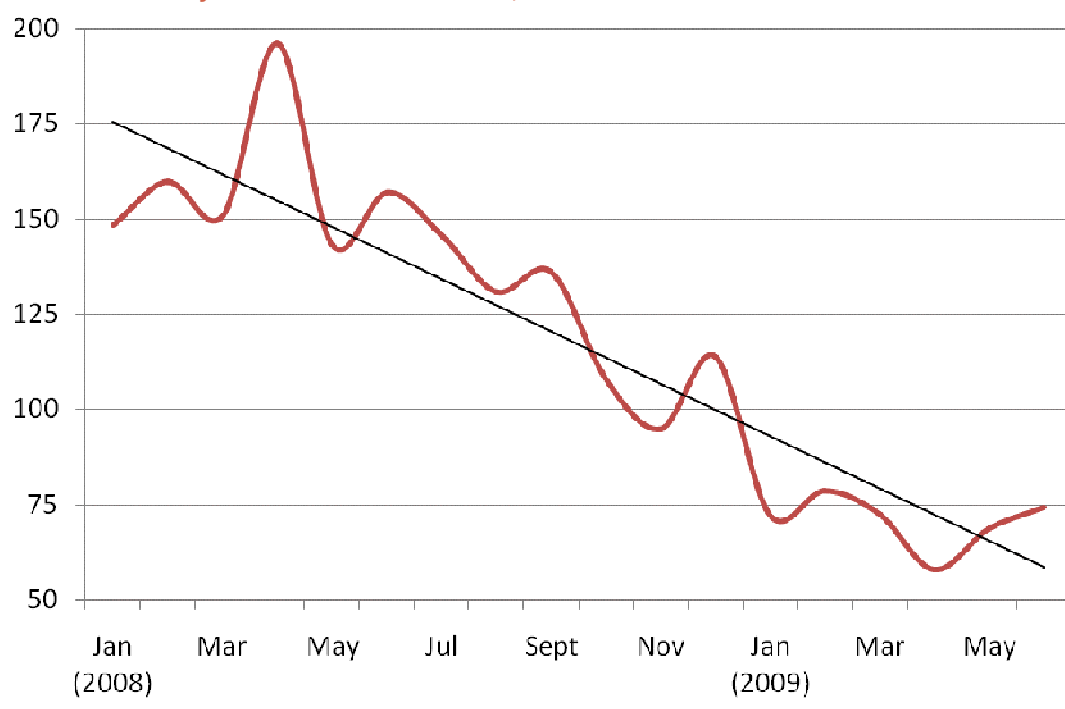
Migrants and migrants' families

It is well known that a significant share of domestic consumption is financed from remittances. At the time of the sociological survey, 5.8% of the respondents said that during the last 12 months their main economic activity was working abroad. The fact that many of them were found at home while conducting the survey is not incidental. One-third of those surveyed said that they have lost their jobs abroad. The worsening financial situation of Moldovan migrants working abroad caused by the world economic and financial crisis also directly impacted the financial situation of their families in Moldova.

According to the social survey, 8.7% of households affected by the crisis argued that their worsening economic well-being was caused primarily by a decline in remittances from family members working abroad. In 4.8% of such cases, at least one member of household working abroad had lost his other job. The official data also reveal the decreasing trend in remittances volume during the recent months, which has a direct impact on the final consumption (Chart 20). Those mostly affected are households with at least one member working in Commonwealth of Independent States countries (Russia and Ukraine). Thus, 18.2% of these stated that their financial situation during the last 6 months became much worse, whereas only 9.1% of households with at least one member working in EU answered the same. The main reason is that Moldovan migrants in CIS are working in construction sector which is one of the most affected economic sectors by the world financial turmoil, while those in EU are mainly employed in the services sector. Thus, these two groups of migrants felt in different ways the crisis' impact. Many of those working in CIS countries lost

their jobs and returned back home, while many migrants working in EU send less money to their families in Moldova than in the previous year.

Chart 20 Monthly Growth of Remittances, %



Source: National Bank of Moldova

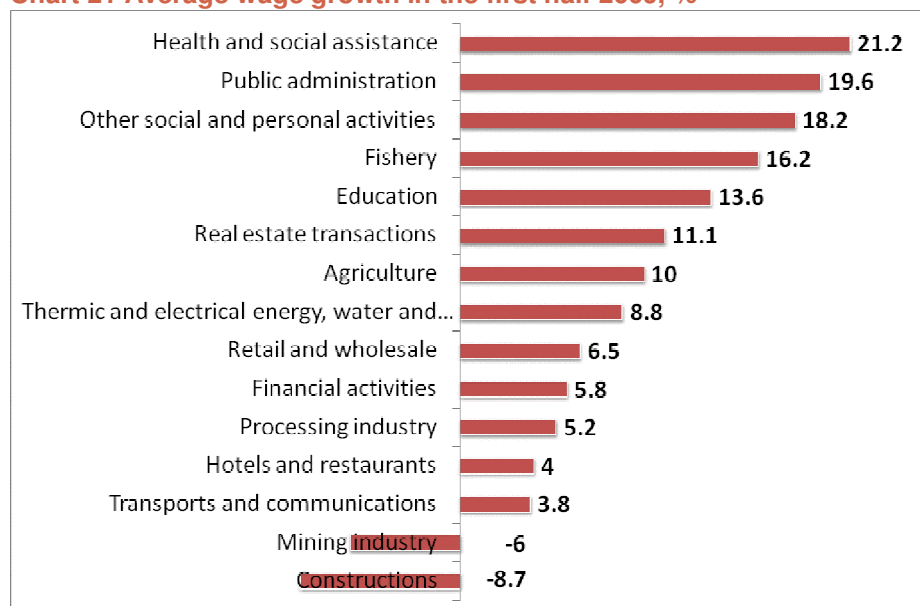
Who suffered the least?

Economically inactive

There is also a high share of individuals who did not feel the impact of the world economic and financial crisis. According to the survey, the financial situation of 40.5% of respondents did not change during the last 6 months. Most of them are studying (47.2%) and respectively do not bear any immediate risks of wage decrease or losing the job. However, the crisis effects can be felt by young graduates since the employers became quite reluctant in hiring new workers and especially with poor or even without any professional background.

Budgetary employees

Employees working in the budgetary sector are another category of population which (for the time being) was less affected by the economic crisis. According to the survey, 40.2% of respondents from this category stated that their financial situation during the recent 6 months did not change, and 10.1% even argued that it has been improved, either slightly (8.9%) or significantly (1.2%). Mainly it was due to the increase in public wages, in the first half 2009 in comparison with the previous year, for workers in public administration (+19.6%), education (+13.6%) and health sector and social insurance (+21.2%). The increase in wages for these categories of employees was based mainly on political reasons rather than on economic ones, with the purpose to influence the electoral behaviour of these people. As a result, the most prominent wage increases were registered in the sectors financed from the state budget, while in the sectors highly affected by the crisis the employees received even lower wages than in the previous years (Chart 21). As shown in chapter 3, by the end of the year the public budget may be in such a difficult situation that wage arrears or cuts will become inevitable.

Chart 21 Average wage growth in the first half 2009, %

Source: National Bureau of Statistics

Households' expenditures: shifting to a cheaper life...

The crisis' impact on households' expenditures was determined, on the one hand, by the constraints created with declining households' revenues and, on the other hand, by anticipations regarding the further evolution of the financial situation in families. The main strategy of adaptation to the financial crisis is either to extend the income basis or to reduce the expenditures from the household budgets (or both indeed).

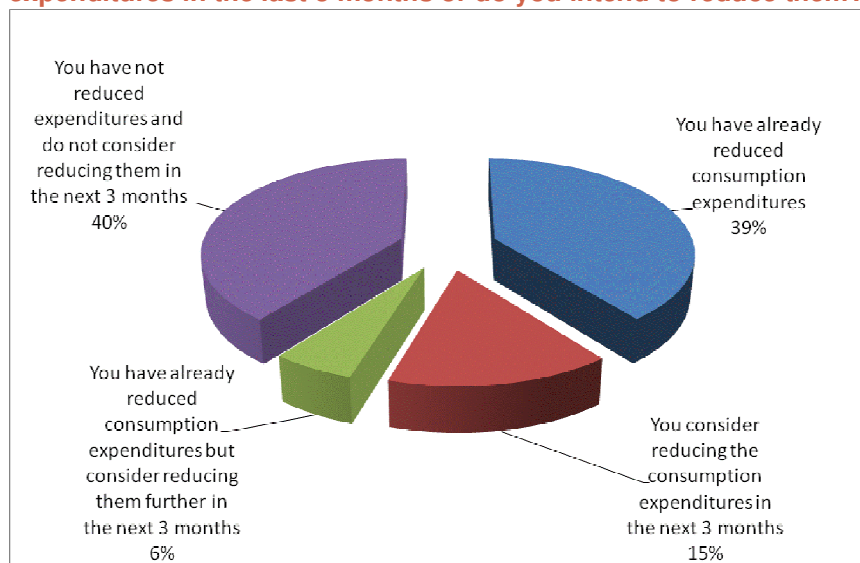
In more than 52% of the households, the income declined in the last 6 months and 30.7% of these households have taken recently or plan to take in immediate future measures to recover their income level. People contemplate mainly five main options that they may have (starting with the most popular in decreasing order):

- working more in the household garden or farm or in the peasant farm to provide for more subsistence means (19.3%); obviously this option is available only for the rural households;
- some people would rather try to find an additional job to compensate for the wage cuts on their first job (18.6%);
- other people are looking for another job inside the country (15.3%);
- about 10% see leaving the country as their main option;
- slightly more than 9% of the population would prefer to work more hours at their present job;

However, the general economic environment will not allow everybody to follow such patterns. Therefore households will have considered ways to cut their expenditures. As a part of this, most of households reduced their consumption expenditures or plan to do so in the immediate future (Chart 22). Thus, according to the survey, 52.7% of respondents already cut their expenditures and 14.8% are planning to reduce them during the next 3 months. These reductions can be characterized by two major trends. The first one implies shifting to cheaper products consumed day-by-day, particularly the foodstuff. Thus, the survey shows that the highest percent of households reduced or are planning to reduce in the immediate future their expenditures for such kind of products (20% of respondents have chosen foodstuff as first option for reducing the expenditures). Another group of products which fall

into the same trend are the clothes and footwear, which reveals the changing preferences of people towards cheaper products or their decisions to postpone such expenditures. With almost equal shares, on third place comes reduction of expenditures for housing services, alcoholic beverages and tobacco and for current house repair works. Additionally, focus-groups discussions and in-depth interviews suggest that in rural areas there are some particularly vulnerable social groups (lonely elderly, families with many children, families relying entirely on peasant farms) that will have to cut education and health expenditures. If these perspectives materialize, they can have a long-lasting negative effect on the country's human development.

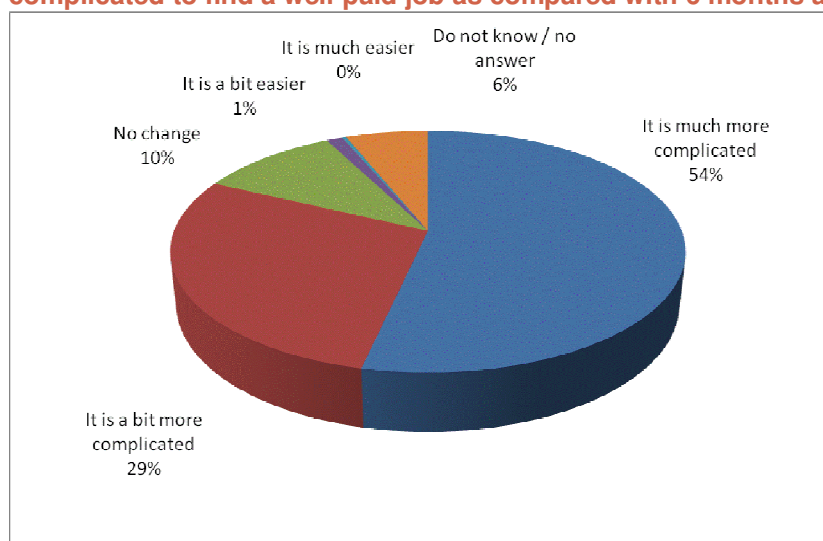
Chart 22 Distribution of answers to the question “Have you reduced your consumption expenditures in the last 3 months or do you intend to reduce them?”



Source: sociological survey

The second trend supposes the cancellation or postponement for an indefinite period of time of expenditures for a series of goods and services which do not serve the households' primary needs. These are the durable goods, constructions or house repairs, vacations abroad etc. More than 81% of the respondents stated that today it is not the right time for making big purchases for home (such as car, capital repair, electrical appliances, computer etc).

Chart 23 Distribution of answers to the question “Do you think that presently it is more or less complicated to find a well-paid job as compared with 6 months ago?”



Source: sociological survey

It is realistic to suppose that the consumption pessimism will not change in the near future. This is underscored by the perceptions of people about the current situation in the labour market. For instance, more than half of the population believes that nowadays it is much more complicated to find a decently-paid job in Moldova than 6 months ago (Chart 23). Only one-third of the people with jobs are confident about their jobs' stability in the next 3 months; 16% of the people are almost certain that they are going to lose their jobs, while 27.5% are afraid that this can happen soon in the future. As many as 32% of those with a stable job have had their wages cut, and 18% are afraid of further wage cuts in the next 3 months.

Migration remains an important option for many people, as suggested by the fact that 12.1% of the respondents said that in the next 3 months at least one member of their family will certainly leave the country, while 15.1% believe that this can happen. For most of the people, however, migration is not an option: 11% of the surveyed people said that it is rather unlikely for somebody from their family to go abroad in the next 3 months, while almost 40% have excluded this option.

Regional profile of changes in wellbeing

As regional statistics are quite poor in Moldova, we have to rely on some proxies to estimate the recent changes in the population's economic well-being. The evolution of retail trade volume may serve as a good proxy revealing the propensity of the population to consume, i.e. it as a proxy of changes in economic well-being. These changes are quite different from district to district (Table 11). Thus, despite the overall decrease in the volume of retail trade by 4.5% in the 1st half of 2009 in comparison with the previous year, there are 8 districts and 1 autonomous territorial unit which registered an increase during the same period. Other 11 districts showed a moderate decrease (1.2%-5%) and the last 10 districts registered a steep decline (5.6%-34.1%). A number of factors caused these trends both related to demand-side and supply-side factors. For example such districts as Rezina, Briceni, Ocnita or Ungheni, which registered the sharpest declines in consumption, were highly affected by the decrease in industrial production in the same period. Many companies there resorted to cuts in wages, staff or working hours, which influenced the consumption demand of the population in these districts. I.e. the most industrialized districts turned to be the most affected by the world financial turmoil, especially those enterprises that were highly dependent on the external markets as well as construction and transportation branches. At the same time, the increase in propensity to consumption some districts (such as Orhei) may well have been determined

by some one-off local business projects, such as accomplishment and opening of a new supermarket. (The NBS data count only the so-called organized trade that flows through shops and supermarkets but not through informal marketplaces).

Table 11 Ranking of territorial units according to the evolution of retail trade volume in the 1st half 2009

District	Q1 09/08, %	H1 09/08, %	Change, p.p.	Trend
Basarabeasca	115.8	127.1	11.3	↗
Telenești	110.7	111.6	0.9	↗
Orhei	113.8	110.1	-3.7	↘
Edineț	116.3	106.3	-10	↘
Soroca	109.4	105.8	-3.6	↘
Cimișlia	102.9	104.8	1.9	↗
Florești	101.2	103.2	2	↗
Sîngerei	104.6	101.3	-3.3	↘
UTA Găgăuzia	104.1	100.7	-3.4	↘
Glodeni	99.8	98.8	-1	↘
Cantemir	93.7	97.2	3.5	↗
Călărași	93.1	97.1	4	↗
Căușeni	97.6	96.4	-1.2	↘
Leova	93.4	96.3	2.9	↗
mun. Bălți	89.6	96.1	6.5	↗
mun. Chișinău	96.9	95.5	-1.4	↘
Dubăsari	105.2	95.3	-9.9	↘
Cahul	92	95.2	3.2	↗
Criuleni	96.3	95	-1.3	↘
Taraclia	93.3	94.4	1.1	↗
Dondușeni	90.2	93.6	3.4	↗
Drochia	92.2	93.5	1.3	↗
Strășeni	90.8	92.8	2	↗
Fălești	91.7	92	0.3	↗
Ialoveni	80.4	88.8	8.4	↗
Anenii Noi	95.6	88.7	-6.9	↘
Hîncești	84.5	88.3	3.8	↗
Nisporeni	83.4	88.3	4.9	↗
Rîșcani	79.8	87.9	8.1	↗
Șoldănești	83.9	87.5	3.6	↗
Ungheni	85	86.1	1.1	↗
Ștefan Vodă	73.7	85.4	11.7	↗
Ocnita	89.6	83.1	-6.5	↘
Briceni	88.6	78.9	-9.7	↘
Rezina	71.9	65.9	-6	↘

Source: NBS

Paradoxically, Basarabeasca and Telenești districts which are among the poorest districts in the country registered the most prominent increases in consumption during the first half of 2009. It appears that the cause of such surprising changes is quite simple. In the richest districts the share of durable goods in the local population's expenditures is higher than in the poorest ones. Respectively, the economic crisis made population in better-off districts to refrain from purchasing such goods, while the population in poorest districts had fewer options to optimize their consumption expenditures to any significant extent.

Table 12 Ranking of territorial units according to the evolution of volume of services rendered to the population in the 1st half 2009

District	Q1 09/08, %	H1 09/08, %	Change, p.p.	Trend
Anenii Noi	97.7	100.8	3.1	↗
Edineț	101.3	98.6	-2.7	↘
Dubăsari	100.0	98.6	-1.4	↘

District	Q1 09/08, %	H1 09/08, %	Change, p.p.	Trend
Ocnita	100.1	96.7	-3.4	↘
Florești	95.4	96.6	1.2	↗
Rezina	94.3	96.6	2.3	↗
Strășeni	96.6	95.9	-0.7	↘
Criuleni	93.1	94.9	1.8	↗
Șoldănești	99.0	94.6	-4.4	↘
Rîșcani	92.8	94.4	1.6	↗
Dondușeni	98.5	94.2	-4.3	↘
Glodeni	93.2	93.6	0.4	↗
Nisporeni	92.8	93.5	0.7	↗
Basarabeasca	91.9	93.5	1.6	↗
Ialoveni	87.0	93.1	6.1	↗
Căușeni	96.5	93.1	-3.4	↘
Drochia	92.7	92.9	0.2	↗
Taraclia	91.5	92.9	1.4	↗
Sîngerei	91.6	91.7	0.1	↗
Orhei	91.1	91.4	0.3	↗
Fălești	95.2	91.3	-3.9	↘
Hîncești	93.7	91.2	-2.5	↘
Telenești	89.9	90.7	0.8	↗
Cahul	91.8	89.9	-1.9	↘
UTA Găgăuzia	93.0	89.8	-3.2	↘
Ștefan Vodă	90.3	89.7	-0.6	↘
Soroca	89.7	88.2	-1.5	↘
Ungheni	85.9	87.9	2	↗
Cantemir	86.2	87.7	1.5	↗
Leova	86.5	85.9	-0.6	↘
Briceni	90.3	85.5	-4.8	↘
mun. Chișinău	86.1	85.0	-1.1	↘
Călărași	81.8	83.9	2.1	↗
Cimișlia	87.4	83.7	-3.7	↘
mun. Bălți	82.5	78.9	-3.6	↘

Source: NBS

The volume of services rendered to the population also declined almost in all regions (Table 12). As services sector is quite specific (with many companies reporting sales not geographically but only by their own place of registry) and quite shallow in a regional profile, there is no significant correlation between the decline in volume of services and decline in retail trade. Most of the service companies are registered in urban areas but their sales cover broader geographic regions. Therefore, no surprise that Chisinau and Balti municipalities, Ungheni, UTA Gagauzia and Cahul registered the steepest declines in volume of rendered services. This means that services companies located in these areas are likely to have suffered the most because of the on-going financial and economic crisis.

Relying on whom?

In order to move away from the economic disorder and uncertainty created by the financial crisis, Moldovans plan to rely mostly on themselves and their families. At least this was the dominant answer (80%) to the question "In order to overcome the difficulties created by the international financial crisis, whom do you rely on?". Only 12.6% have some expectations regarding any state-provided support.

According to social perceptions, community-based financial support would be quite narrow if such a support would be necessary for any reasons. Only 15% of the people are confident that they could find somebody to loan them money if necessary (1000 MDL) and 27.1%

believe that most likely they would find such a support. About 20% of the people are rather doubtful regarding such a perspective, and 35.3% are certain that they would not find such a financial support.

At the same time, the crisis and some related domestic issues (bankruptcy of a commercial bank) have made citizens rather distrustful regarding the banking sector. Only 12% of the respondents said that the best way to keep the savings is to deposit them with a commercial bank, while another 7.4% believe that only the state-guaranteed amount of money should be kept in banks (6000 MDL). More than one-third of the country's residents believe that money should be kept at home, while many believe that the money should be directly invested in some economic opportunities. Such dispositions convey a rather pessimistic view regarding the resumption of the banking credit in the near future, with corresponding negative effects in the real economic sector.

7. Impact of the crisis on local businesses

Introduction

Ideally, local businesses and businessmen should form the backbone of the Moldovan economy and society. While enterprises from different sectors contribute to economic growth, promote technological innovation and new managerial practices, and drive integration of the Moldovan economy regionally and internationally, business owners, through their pro-activism help create a middle class – a powerful constituency to influence the government in shaping national policy agenda.

In reality, the situation of Moldovan business has been much more prosaic and the local economy still struggles with such transformational vices as lack of real competition, excessive state interventionism, expensive credits and so on. The unfolding financial crisis seems set to exacerbate these shortcomings even more. Thus, the local businesses are expected to be hit in many ways.

- Firstly, both external and internal demand is contracting.
- Secondly, the jitters sent throughout the markets by the financial turmoil squeezed the credit.
- Thirdly, the crisis puts much strain on the previously forged business-to-business partnerships and business-customer relations.
- Last but not least, political crisis magnifies the already overwhelming risks with government seen as passive bystander at best.

Obviously, what is bad for businesses is bad for the country and people. The slump in economic activity means less money for the state budget, i.e. less money for public goods and social safety net; and it also means less income for the employed, who see jobs/working hours and wages cut as adverse effects trickle down to the core. This, as aforementioned, sends the entire economy in the downspin as a vicious circle is formed.

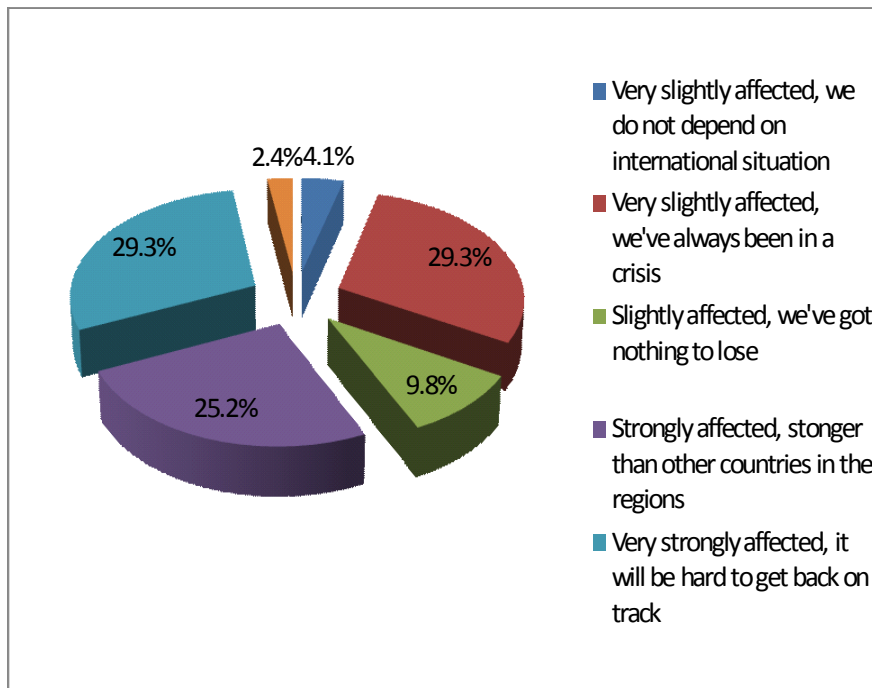
This chapter tries to see in more detail how local businesses perceive and feel the effects of the international financial crisis, how they cope with its effects, and their expectations from the government and what they anticipate will come next. The assessment is based on data from a business survey conducted in July 2009 with 123 companies from the entire country (except Transnistrian region) based on structured questionnaires on the crisis impact. The survey was not meant to be nationally representative but rather to provide a qualitative sense of what happens in the real sector of Moldovan economy. Statistical data published by NBS have been used to validate the qualitative conclusions.

Crisis is more felt than perceived

During the last 20 years Moldova has passed through crises of various sorts. However, even with this dire record, it is still the case that the on-going economic crisis is a chief concern for most Moldovan companies. Slightly over half of surveyed companies mentioned they were strongly affected by the unfolding economic crisis. Some companies felt that Moldova was affected even more strongly than its regional neighbours, while others thought that decline was so steep that it would be very hard to come back on track. At the same time, some companies perceive this crisis as just another in a series of crisis, they either thought Moldova has been always in crisis or that - paraphrasing founders of communist thought – there is nothing to lose (Chart 24).

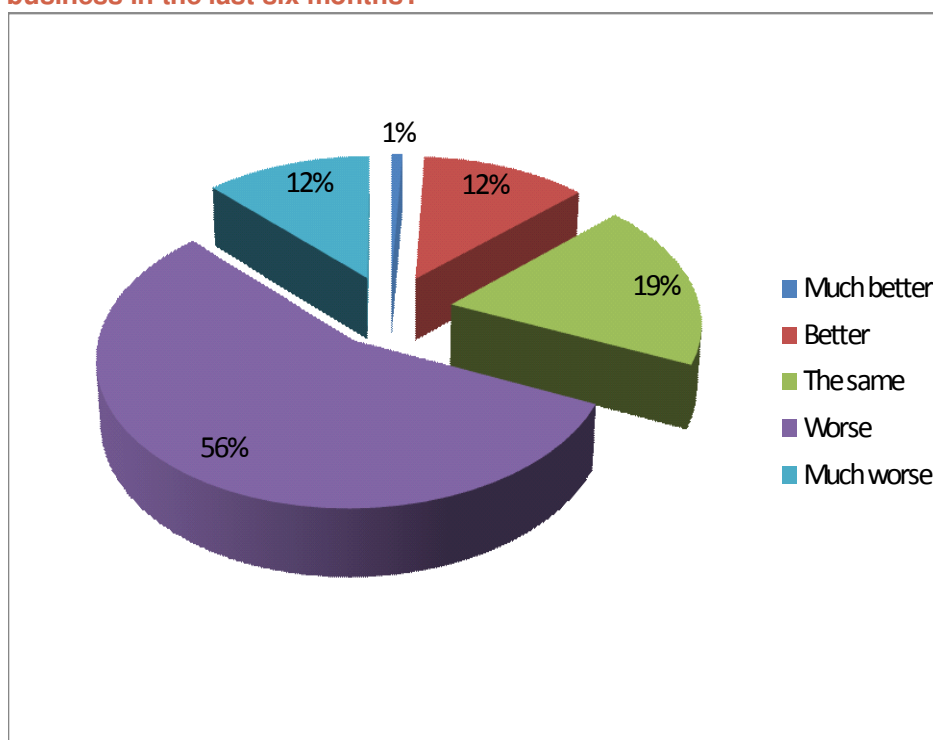
The perceptions that Moldova was strongly affected by the crisis were more or less equally shared by companies from different sectors and with different number of employees. Perceptions Moldova, with its history of crisis, was slightly affected by the current crisis are widely shared among companies from real sector (agriculture and industry), but also by retailing and constructions sector companies and this comes as somewhat surprising given the recent boom in private consumption and real estate sectors. However, crisis perceptions are much stronger among companies from agriculture (62%), business service providers (66%) and population (50%), and retailing (57%) sector. At the same time rural companies have slightly stronger perceptions of crisis (almost 57%) than urban ones (almost 52%), which perhaps can be explained by prevalence of agri-businesses among them.

Chart 24 Distribution of answer to the question “To what extent Moldova is affected by the international crisis?”



Sources: business survey

Chart 25 Distribution of answers to the question “How do appreciate the situation of your business in the last six months?”



Sources: business survey

Although, not all companies agree that Moldova is affected by the international financial crisis, many saw their fortunes decline in the last six months: 56% of surveyed companies stated that things got worse and 12% much worse in the last six months (Chart 25). At the same time, the sector picture is slightly different from the one observed in the case of perception of the crisis impact on Moldova. According to the survey, the sectors with higher share of companies who saw their situation worsening were: rendering services to businesses, retailing, construction, industry and agriculture. The lion's share (88%) of those whose situation worsened in the last six months associate this outcome with the effects of the international financial crisis. Curiously, if only 67 of total 123 companies considered that Moldova was affected by the global financial crisis, then 74 believed that worsening situation of their companies occurred because of the crisis. While difficult to directly interpret this surprising schism (probably some psychological causes cannot be neglected), this finding can probably be explained by the fact business representatives see the impact of the crisis on their own companies as much stronger than impact of the crisis on the country as a whole.

Table 13 Ranking of territorial units by value of industrial production in 2009

Territorial units	Q1'09/Q1'08, %	H1'09/H1'08, %	Trend
Total	75.8	75.1	↘
Leova	165.4	260	↗
Cantemir	440	184.4	↘
Telenesti	118.5	131.4	↗
Soldanesti	78.3	111.7	↗
Nisporeni	102.9	101.9	↘
Donduseni	102.4	99.6	↘
UTA Gagauzia	82.9	90.8	↗
Soroca	89.7	89.6	↘
Drochia	117.5	87	↘
Cahul	83.9	86.2	↗
Rascani	105.8	83.7	↘

Territorial units	Q1'09/Q1'08, %	H1'09/H1'08, %	Trend
Stefan Voda	45.1	81.2	↗
Glodeni	78.3	80.5	↗
Causeni	74.2	79.9	↗
Balti	79.6	79.3	↘
Floresti	78.2	79	↗
Sangerei	65.6	78.2	↗
Chisinau	75.2	75.4	↗
Ialoveni	60.7	75.2	↗
Edinet	77.2	67.7	↘
Anenii Noi	61.2	67	↗
Calarasi	70.8	66.2	↘
Criuleni	66	65	↘
Rezina	97.8	64.7	↘
Orhei	57.8	63.4	↗
Ungheni	71	59.6	↘
Straseni	66.1	58.1	↘
Cimislia	55.1	57	↗
Falesti	53.8	56	↗
Taraclia	25.5	52.4	↗
Ocnita	30.7	46.5	↗
Hancesti	41.9	45.9	↗
Briceni	35.9	26.9	↘
Dubasari	122.1	12.2	↘
Basarabeasca	7.2	7.9	↗

Source: NBS.

In the majority of these sectors (excluding agriculture), varying degrees of decline can be observed at the national level too. In the following three tables we compiled a ranking of the territorial units by the following sectors: industry, investments in fixed capital and transports of goods. These sectors are very relevant in order to show the magnitude of the decline in industry and transports of goods (a proxy for business commercial activity in general) as well as derive some expectations based on the levels of investments. Also we try to see how the things evolved from the first to the second quarter of 2009 in an attempt to figure out if the decline has reached its apex.

The industry data by territorial units show that the decline is still underway (Table 13). The economic contraction is bringing havoc for the industries of most of Moldovan regions, with especially daunting impacts in the more industrialized districts of Northern and Central Moldova. The impact is apparently not that pronounced in some traditionally depressed regions, such as Leova, Cantemir, Telenesti, and Soldanesti. However, the explanation for such evolutions is, by far and large, not that these districts found some innovative ways to sharpen their competitive edge in times of crisis. In case of Leova and Cantemir a spectacular growth occurred mostly due to bottoming out of their wine-making sectors, while shrugging off the effects of the Russian embargo. Unfortunately, the whole domestic wine-making sector is in dire straits, with stocks of bulk wine reportedly exceeding 26 mln dal. Therefore, this growth may well represent just one short-lived episode because companies still need free access to foreign markets and more competitive wines in order to generate revenue from this production. In the case of Telenesti and Soldanesti, the high rates of growth are mostly explained that this growth comes from very narrow and low industry base (in fact any industrial base in this two districts in the last years was almost absent). Industrial growth in Telenesti was determined by a “surge” in bakery sub-sector (probably because of opening one production facility), while source of growth for Soldanesti cannot be deciphered from the national statistics. All in all, although there are some encouraging signs, they are not very conclusive yet.

The situation in the transports sectors in the territorial units is also of little consolation (Table 14). Although the aggregated data shows some signs of economic activity increasing, the magnitude of the overall decline is still shocking (-50%). Aside from some obvious outliers, such as few districts where robust growth is explained by new sectors (non-existent in the previous year), we see that the outlook remains grim. Moreover, the data shows that there is quite an extensive number of districts where situation is actually worsening. Also, there are several industrially important districts where fall in transports of goods is very dramatic, see for instance position of Edinet, Orhei or Soroca.

Table 14 Ranking of territorial units by growth rate of the goods transported in 2009.

Territorial unit	Q1'09/Q1'08	H1'09/H1'08	Trend
Total	47.5	49.8	↗
Cimislia	233.3	330	↗
Stefan Voda	700	330	↘
Rascani	-	800	↗
Criuleni	250	160.5	↘
Drochia	500	157.1	↘
Sangerei	1200	108.7	↘
Ocnita	40	100	↗
Ungheni	120	92.3	↘
Balti	89.7	89.6	↘
Nisporeni	50	86.3	↗
Straseni	85.9	83.9	↘
Taraclia	87.6	80.8	↘
UTA Gagauzia	71.2	78.9	↗
Ialoveni	66.1	77	↗
Briceni	73.5	74.6	↗
Calarasi	123.1	74.4	↘
Causeni	69.4	55.3	↘
Rezina	16.3	53.2	↗
Chisinau	51.9	48.8	↘
Floresti	43.2	45.1	↗
Anenii Noi	30.1	44.7	↗
Hancesti	36.7	44.7	↗
Soroca	11.1	25.5	↗
Orhei	8.2	13.6	↗
Edinet	2.1	1.2	↘

Source: NBS.

If the investment data offers any guide for the future, the future does not look very bright either (Table 15). The private investments are in slump across the country and the signs of stabilization are very weak. Moreover, the only type of investments that expanded in the first half of 2009 were the investments coming from the districts' budgets and which were probably to a large extent influenced by the electoral concerns. Domestic and foreign private investments both contracted significantly, by 28% and 48% respectively. Public investments from the state budget fell by more than 70%.

Table 15 Ranking of territorial units by fixed capital investment in 2009

Territorial units	Q1'09/Q1'08	H1'09/H1'08	Trend
Total	59.4	61.6	↗
Donduseni	109.9	170.0	↗
Nisporeni	56.2	160.0	↗
Glodeni	160	150.0	↘
Telenesti	270	150.0	↘
Drochia	280	138.1	↘
Leova	240	133.8	↘
Sangerei	190	118.7	↘
Basarabeasca	270	116.3	↘

Territorial units	Q1'09/Q1'08	H1'09/H1'08	Trend
Soldanesti	190	112.3	↘
Ungheni	83.6	110.2	↗
Anenii Noi	61.5	109.5	↗
Gagauzia	105.4	105.4	↔
Dubasari	22.1	97.0	↗
Hancesti	110.1	96.1	↘
Falesti	74.4	95.4	↗
Calarasi	230	90.7	↘
Cantemir	39.9	88.8	↗
Ocnita	97.6	87.3	↘
Briceni	53.1	84	↗
Cimislia	170	76.8	↘
Floresti	90.5	75.5	↘
Balti	58.4	72.2	↗
Criuleni	190	69.3	↘
Rascani	120	68	↘
Stefan Voda	42.8	61.4	↗
Orhei	91.7	60.7	↘
Taraclia	55.4	60.6	↗
Chisinau	60.9	59.2	↘
Edinet	113.5	56.5	↘
Ialoveni	52.4	45.1	↘
Causeni	13.8	41.7	↗
Soroca	27.6	40.4	↗
Straseni	48.6	30.2	↘
Cahul	21.5	29.4	↗
Rezina	95	17.1	↘

Source: NBS.

Given the poor state of the public budget both at the national and district level, it would be unreasonable to expect that public investment would spur in any considerable way economic activities. The only solution may come via big development projects supported by international donor community in effort to reignite Moldova's modernization, and stave off the effects of the international financial crisis on Moldova.

How exactly crisis affects companies?

The companies have experienced the crisis in various ways; however, the fall in sales is one of the most vivid. Slightly over 86% of companies affected by crisis stated this is the main effect crisis. At the same time, there is a series of other effects which show some growing strains within the economic system: credits became harder to obtain (21.6%), companies accumulated debts to suppliers (17.6%), companies accumulated debts from clients (23%), and contract relations with strategic partners broke down (6.7%). Apparently, another worrisome feature is the growing number of state controls (15%) – the last thing the businesses need in the time of crisis.

At the same time, the crisis did not affect all the companies in the same way. For example, falling sales and more expensive credits affect the retailing, industry, agriculture and constructions companies, while accumulation of debts from the clients is more prevalent in the case of the services companies. The state controls are mostly wide-spread amongst business services providers, agri-businesses, retailers and construction companies.

Micro-enterprises suffer much less because of squeezed credits, perhaps because it was never easy for them, however suffer more because of state controls again apparently because they are very small and vulnerable to bullying from the state representatives. Due to falling sales mid-sized companies accumulate debts to suppliers, while small companies find

it increasingly difficult to get paid by the clients and it is especially relevant in the case of small exporting companies.

What are the main reasons for these shortcomings? Most of the blame can be placed on falling demand, and since the majority of companies operate in the domestic market, this places the blame on falling internal demand. Thus, the companies' responses mostly support the idea of falling households' incomes outlined in the previous chapter. The fall in domestic demand is seen by the companies comes in many ways: falling wages (52%), falling orders (50%, although this also can be an expression of falling incomes), and dwindling remittances (34%). Falling demand is not limited to domestic demand, though. Some companies (15%) also experienced economic distress due to declining external demand.

Certainly, the channels of transmission vary significantly across the sectors. Thus, falling wages and remittances affect mostly retailing, services and constructions sector where the households' consumption propensity is most important. Conversely, falling orders affected mostly real sector enterprises (industry and agriculture), constructions as well as business service providers.

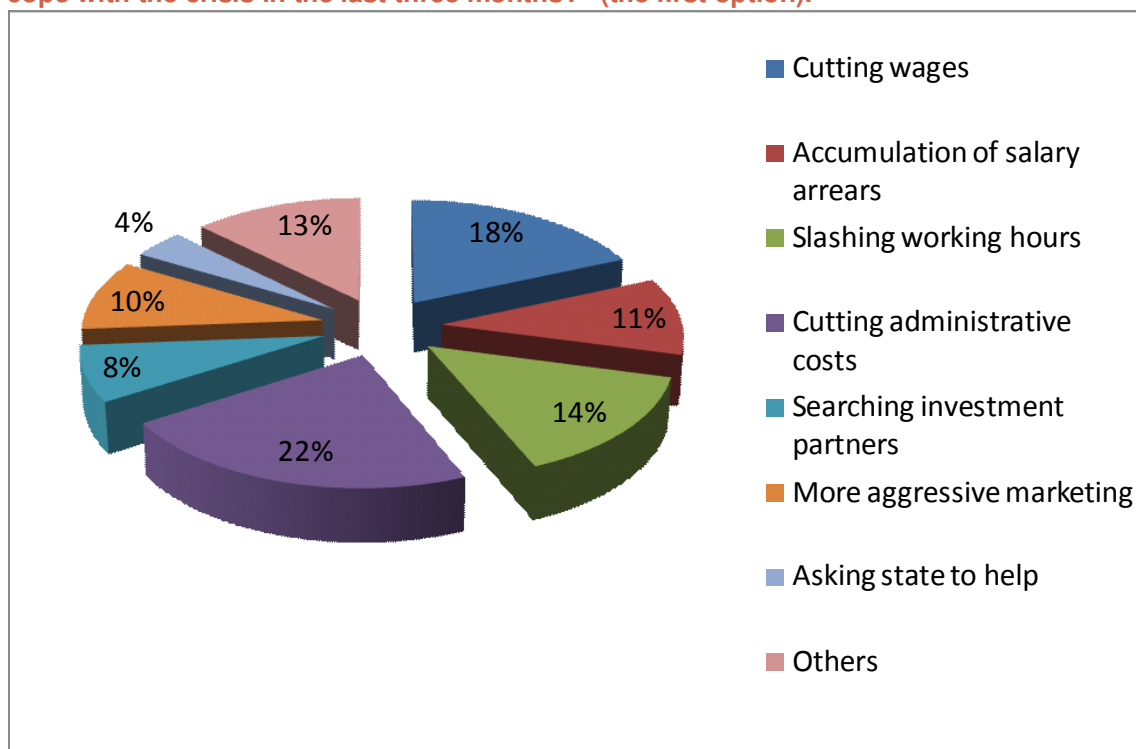
What companies have done and plan to do to offset the crisis effects?

Obviously, the unfolding crisis forced the companies to react. What counter-crisis options did they chose in the last three months? Not so many, as survey has shown. The standard cost-cutting package included: reduction of administrative costs (23 companies), cutting wages (19), slashing working hours (15), and accumulation of salary arrears (11), of which last three will obviously undermine the households' incomes and lead to more poverty amongst working households. It is worthwhile mentioning that so far majority of the companies refrained from firing workers. One important outcome of these measures would be raising underemployment, as growing share of labour force will not be used at full capacity. And there are only 18 instances of use of market measures, such as implementation of more aggressive marketing (10 instances) and searching for foreign partners (8 instances).

There are some differences between different companies depending on their size. Generally, micro-enterprises were more prompt and pro-active in taking counter-crisis measures. They mostly preferred wage reductions and started accumulating wage arrears. Small companies relied more on wage cutting, while mid-sized companies preferred slashing working hours for its personnel.

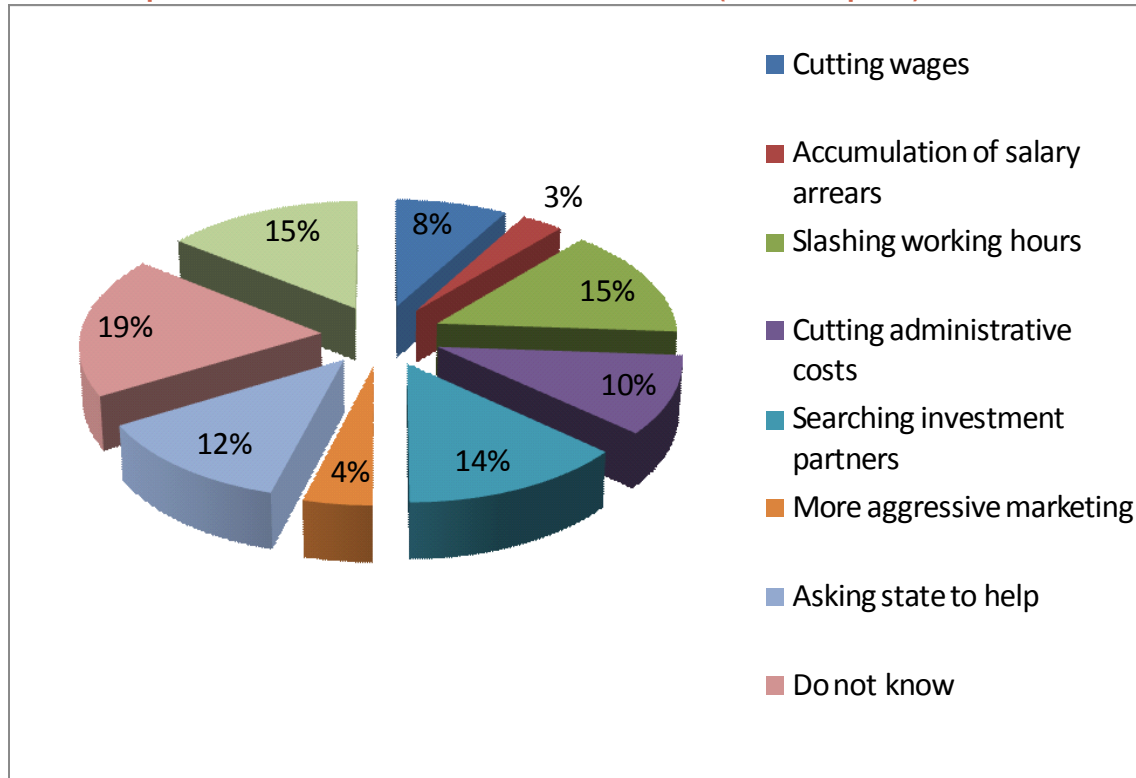
No less important is what companies plan to do if the current economic downfall persists. Companies plan to do more of the same with still more emphasis on cost-cutting measures (Chart 26): slashing working hours (14 companies), reducing administrative costs (10), and cutting wages (8). It should be noted that there are still only 2 companies that said they would consider firing staff as a response to the crisis in the following three months. This probably reflects historical penchant of Moldovan enterprises for hidden unemployment instead of outright firing of people. Cutting wages is still preferred by micro- and small enterprises, while mid-sized enterprises see cutting administrative costs as an effective counter-crisis measure.

Chart 26 Distribution of answers to the question “What measures you undertook in order to cope with the crisis in the last three months?” (the first option).



Source: business survey

Chart 27 Distribution of answers to the question “What measures you plan to undertake in order to cope with the crisis in the next three months?” (the first option).



Source: business survey

However, if the downfall continues an increasing number of enterprises (12) would apply for the state help (Chart 27). The small enterprises are mostly inclined to follow with such a plea.

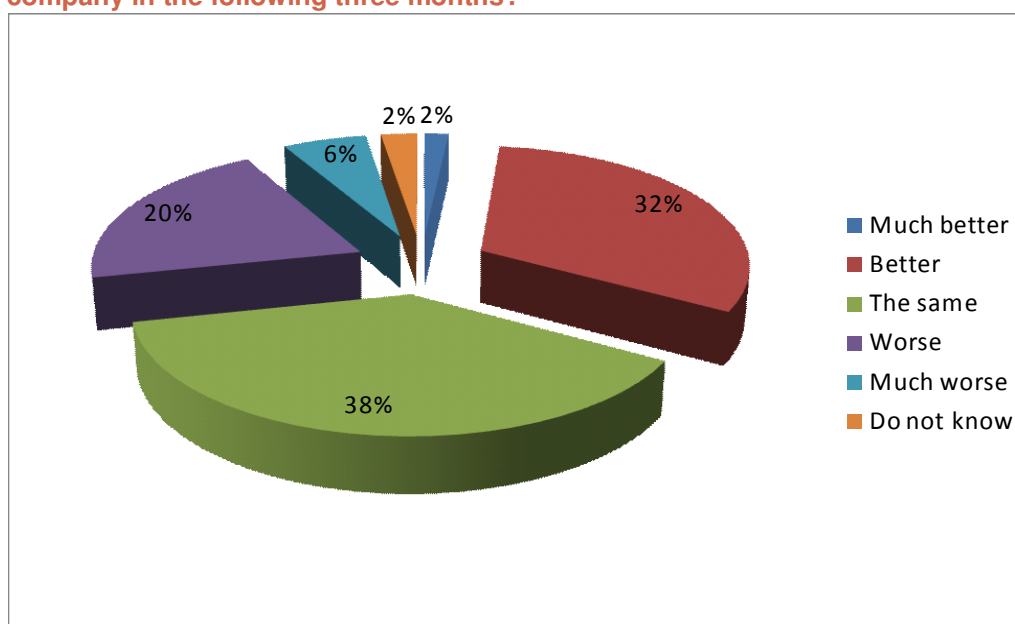
While Moldovan companies are generally in favour of seeking government's help, it is important to understand what kind of help they need. The tax slashing is by far the most favourite measure wanted by business, with support by slightly over 28% of all surveyed companies, and most popular with mid-sized companies. Other important measures are those that could be called "win-win" measures, i.e. these measures largely make sense in any circumstances: making credits less expensive by slashing interest rates (8.1%), ensuring honest competition on the market (7.3%), reducing corruption (6.5%) and diminishing number of state controls (4%). However, some companies are quite minimalist in their demands, they just want to be left alone (5.7%). It is worthwhile to mention that different protectionist measures, such as putting in place barriers against imports are not endeared by local companies.

The shape of the future to come...

Most of the companies are aware of the adverse impacts the international financial crisis has imposed on them. Nonetheless, it is equally important to figure out how companies see their fortunes in the forthcoming months.

Some companies remain optimistic. On aggregate, slightly more than a third of interviewed companies expect things to get better in the following three months (August-October), while only a bit more than a quarter of them thought things would get worse. However, the biggest share of companies (38%) expected no change to the situation, as seen from the Chart 28. This is exactly the situation of a glass half-full and half-empty. More sanguine analysts would say that the economic downfall has stopped and the economy may well start bottoming out in the next few months. Otherwise, the "doomsters" would say that economy enters a protracted period of stagnation and depending on other variables the situation can still deteriorate. Given the fact that "doomsters" camp is dominated by the companies from the constructions sector, which benefited enormously in the wake of economic growth and construction boom, and where recovery may be more remote and sluggish, the balance is probably tipped in favour of "optimists".

Chart 28 Distribution of answers to the question "How the things will turn out for your company in the following three months?"



Source: business survey;

A more detailed look at companies' expectations towards some production factors and some consumption determinants (e.g. remittances) which is presented below help figure out the shape the future will take. What particular factors may contribute to lifting the economy?

Neither government nor local public authorities...

Generally, the companies do not expect that either central government (52%) or local authorities (63%) can initiate any considerable improvements to the economic situation of the companies. This view does not vary in any substantial way across different economic sectors. These responses are revealing as they show how sober are perceptions of the companies with regards to positive impact and potential of government interventions. It also shows that companies do not see local authorities able to intervene in any comprehensive manner in order to change the current situation. Moreover, quite an important number of companies expect in both instances that the situation will worsen because of increased number of controls and fiscal burden.

If not government, can Moldovan labour migrants prop up internal demand by sending home more remittances? Here, the responses given by companies also offer little hope. Almost half of responses (47%) are based on the negative outlook regarding inflow of remittances, i.e. majority of companies expect the remittances to drop. And only a small minority of companies (12%) believe remittances will grow in the near future. This would mean that further on the economic growth in Moldova will have to be based much more on external demand and consistent inflow of investments, and not on internal demand fuelled by migrants' remittances. This, however, will require substantial improvements in business climate and international competitiveness of Moldovan companies. The sceptical view of companies on role of the government offers little hope in achieving meaningful progress at least with respect to business climate improvement.

Even if companies have low expectations towards public authorities and inflow of remittances, other fundamental factors like labour, raw materials and accessibility of credit may be decisive for turnaround in the companies' fortunes. Many companies, for instance, believe that labour costs will fall. Almost half of surveyed companies expect this to happen, while only 14% of them believe that labour cost will grow and 32% do not foresee any change on this matter.

Households' incomes: still more pain to come...

Furthermore, companies' outlook on future employment is also not very optimistic. Majority of the companies (52%) do not expect to raise their number of employees, while almost one-third are looking forward to downsize their labour force, and another 18% of companies are ready to add to their staff. Nonetheless, employment outlook depends a lot on the sector the company is operating in. Two sectors, industry and constructions, are particularly gloomy: almost half of employees are ready to shed their employed. If these reductions take place we can expect that considerable number of workers, mostly males, will lose their jobs with little prospect to find job in other sectors, where number of employees is expected to remain stable. Certainly, this will add downward pressures over the wages of working household, especially in these two sectors.

Taking into consideration what survey data show that:

- household incomes have taken the hit in the aftermath of the crisis;
- falling households incomes are one of the main factors putting pressure on economic activity;

- companies increasingly rely on labour cost-cutting measures (salary and working hours reductions) in the process of coping with the crisis effects;
- migration potential is shrinking and external conditions for labour migration are less favourable than a year ago;

one can expect that there will be a growing number of underemployed and unemployed people and a contracting number of jobs available. This will push down the wages and will decrease labour costs for the companies. Not less important, sinking labour costs are expected mostly by companies where wage growth until recently has been particularly impressive: constructions and industry. Conversely, these expectations are lower in the case of agriculture, retailing and services sector, since wage growth there has been more subdued.

Furthermore, companies across all sectors do not expect the raw materials to become any cheaper. Quite opposite, almost half of them are readying for more expensive raw material inputs, while another 20% expect no change on this matter. Only 19% of interviewed companies look ahead to cheaper inputs. The expectations towards access to credit offer little consolation too. Almost half of the interviewed companies believe that credits will become more expensive, while only 8% of companies are anticipating the credit to become cheaper.

This analysis shows that eventual recovery in companies' activity is expected to be based on the sinking labour costs (meaning still more suffering for the households), while other factors will either mean growing production costs or less internal demand. Moreover, falling internal demand will result in dwindling budget income which government may seek to cover by raising tax burden on the enterprises. This would raise the costs for the enterprises again.

8. Policy conclusions and recommendations

Due to domestic political circumstances (general parliamentary elections) in late 2008 and in 2009 the Moldovan government did not react properly to address the challenges posed by the global financial crisis. This has significantly limited the reaction capacities and adaptation options for companies, local public authorities and households. Great majority of regions and communities in Moldova have suffered a significant economic blow and some of them are back in 2004-2005 by main economic indicators.

Resumption of the economic activity in Moldova largely depends on surging demand in European and CIS countries. Recovering foreign demand will drive domestic demand as well. As many of these countries have already adopted large packages of fiscal and investment support to spur domestic demand, Moldovan migrants and exporters indirectly or directly will be part of the beneficiaries. Some encouraging signs of biggest European economies taking off have already emerged in July-August and certainly will exert positive effects on some Moldovan exporting companies. However more things are yet to happen in order for the domestic economy to retake its shape, including a strong economic recovery in Russia, Italy, Spain and Portugal.

However, even if the full spectrum of “classical” enablers of Moldovan economic growth recovers in the near future (migrants, remittances, exports), Moldovan companies and government should not go “business-as-usual”. Both government and companies have not to miss the opportunity to address the core weaknesses of the Moldova economy and thus give an impulse for a qualitative shift in the country’s economic growth model. Such measures will help address the current economic recession in short-run and set the country on a more sustainable path in long run. Below the most important “no regret” measures that have to be adopted are presented. Some of them are sector-oriented but most of them are economy-wide. We believe that the UNDP is certainly well placed to promote these recommendations among its governmental and local counterparts:

- Even though there are some signs that economic decline may have touched the bottom, it has hit deeply the local communities and the crisis by no means over;
- What the current financial crisis has patently proven is just how narrow and weak the economic growth has been in the last decade in Moldova. The country has followed an illusory economic growth, without achieving substantial improvements in the wellbeing at individual and community level. This is underlined by the widespread belief that Moldova has been in a constant crisis in the last two decades and that the current financial crisis only added some new twists to it. Higher and more rural- and periphery-oriented public and private investment in education and roads would be the main specific enablers for a more inclusive and socially fair economic growth in the long run. These budget lines should not be touched either in the 2009 budgetary revision or in the 2010 local and central budgets;
- In 2009-2010 Moldova will be left with a growing number of unemployed people, and the government and development partners should take immediate actions with targeted training programs for these people. These programs have to provide necessary skills for the people to be able to find other jobs or to self-employ. A particular attention should be given to rural youth experiencing more significant hurdles of entering the labour market during this crisis;
- Social situation should be closely monitored at local level by both government and local public authorities. There are signs of growing social pressures in communities, with people being stressed by the uncertainty regarding their jobs, remittances from

abroad and social payments from the budget. Some rural and urban dwellers have reported that many people started consuming more alcoholic beverages, and this concern is clearly visible in the sociological survey;

- Many households started rationalizing their budgets, and in this context it is crucially important that education expenditures are not sacrificed and children keep on going to school. It is equally important for field NGOs and local governments to monitor closely that children are not brought to agricultural fields or construction sites at the expense of the time that they have to spend in school or doing homework;
- As the cold season starts the international donor community perhaps will have to step in for staving off the collapse of social infrastructure such as kindergartens, schools and hospitals. Many of these institutions will have to pass through restructuring or temporary closures. The conducted interviews and focus groups have clearly shown that many socially vulnerable groups are afraid of the cold season because they do not have necessary means for heating the homes. Some of them may even need food packages and basic medicines;
- It is quite revealing that most of the companies and citizens do not have any positive expectations regarding what the government should do in order to provide a relief in the crisis circumstances. This ultimately shows how wide the gap between the government and the civil society is. It also proves the magnitude of public distrust regarding governmental interventions. No surprise, many companies do not need anything from the part of the government save not “messing up” even more. Either institutionalized, or informal but honest policy dialogue, should start immediately between the government (represented by Ministry of Economy and Trade) and the companies. Sectoral working groups should be established in order to discuss critical constraints to growth in each economic sector and to agree on necessary policy interventions;
- A similar working group should be established immediately by Ministry of Finance and district- and community-level public authorities to agree on a fair and transparent budget revision for 2009. At the same time, representatives of the local public authorities should be involved in the would-to-start dialogue with the international financial organizations and bilateral donors;
- The current system of inter-governmental financial transfers does not motivate the local authorities to collect and rely more on local revenues. As result, there is no motivation to further facilitate the development of local businesses. The financial support transfers are more transparent than those with special destination, but their allocation is based on inaccurate local data (mostly demographic), allowing for some localities to save while the others incur losses. The transfers with special destination are considered to be less transparent with the priorities identified at the local level often modified by the central authorities; the Ministry of Finance should up-date its normatives within a transparent dialogue with the local public authorities; at the same time the Parliament and the Government should refrain from approving politically-biased allocations of the public investment funds;
- The government should consider a more transparent and predictable redistribution mechanism of revenues from taxes between central and local budgets. The increase in the financial autonomy will make it possible for the local authorities to respond to demands for higher spending or adjust to sudden downturns in revenues without having to go hat in hand to the Government. Even more, having a share from the state taxes will stimulate the local public authorities to care more about their local economies;

- With the same purpose of motivating local authorities to mobilize local revenues the government should consider changing the transfer distribution mechanism. The transfers with special destinations do not seem to fit the definition stated in the law and should be revised as to allow the local authorities to identify their priorities;
- The government should freeze the increase in wages with the objective to allow some other important expenses to be undertaken, i.e. communal service of schools and kindergartens, food expenses, etc. Even though this will be politically difficult to explain to the constituencies, a new government would be best positioned to implement this measure;
- It is imperative for the new Government to speed up the reform of the social protection policy. Presently this policy is of limited use for a genuine social protection, and this is particularly evident in times of crisis. By implementing a means-tested social protection policy, the Government would free up important amounts of resources that can be used more usefully in other sectors. For a similar reasons, it is necessary to continue the pensions reform, and the first step for a benevolent Government would be abolishing all preferences and unwarranted benefits and to adopt an universal approach to all contributors and beneficiaries;
- The new government should start as fast as possible its negotiations with the EU regarding the visa-free regime for the Moldovan citizens. Achieving higher labour mobility in EU region would represent a landmark achievement for Moldova. This would drastically reduce the share of illegal migrants, increase remittances, reduce the period of migrants' staying abroad, and help reunite families;
- In the 2010 budget the Government should consider a reduction of the VAT and other taxes on growth-enabling commodities and services, such as computers, automobiles and construction works. This can be compensated by a slight increase for the VAT rate for some inelastic goods and excise for luxury goods and services;
- In 2009 the Government reacted to reducing budget revenues by increasing the administrative pressures and sending more state controls to the companies. This has had some temporary results, but it is not an option to follow in long run, because this can push many companies into the shadow economy. Contrary to that, the Government should further liberalize the business environment and adopt more investment-enabling regulations. An encouraging business environment is key for creation of jobs in the country;
- The Government should immediately start a dialogue with exporters from the key sectors and from all regions to identify and eliminate administrative behind-the-border trade barriers. Frequently these barriers are not even part of formal decisions or regulations but are arbitrarily adopted by sectoral authorities. This is particularly the case of winemaking, international transportation and grains exporting sectors. An overall reduction and cheapening of the import- and export-related regulatory measures is critically necessary;
- While the Government is short of fiscal tools to stimulate the domestic demand, it has the necessary resources and competencies to address institutional and structural barriers limiting demand. Many of these constraints have been artificially created in order to channel consumers' surpluses to representatives of various vested interests. Anti-competitive arrangements are widely spread in Moldovan economy keeping prices artificially high and diverting resources from the poor to the rich. The National Agency for Competition Protection should start a series of enquiries on the

functioning of core markets (medicines, food, and clothes). The Agency should also start immediately an enquiry on the access of the farmers to the urban markets;

- Fighting corruption is a “no-regret” measure under any circumstance. However paying more attention to this issue is particularly necessary in times of crisis, when temptations are higher. A core ingredient to a successful anti-corruption campaign would be accomplishment of the central and local public administration reforms. The two administrative levels have to be well-paid, based on professional merits and free of political interferences. Another key for improving the resource allocation across the whole economy would be reducing the possibilities for corrupt deals in the public acquisitions sector;
- Administrative decentralization should take real implementation in Moldova. Despite the last years’ rhetoric about the need to increase their administrative and financial independence, in reality, the district authorities have little autonomy in fiscal-policy decision making and they end up executing central authorities’ orders. The accountability continues to remain hierarchical and vertical, rather than to the local constituency;
- The real reforms that would have increased the efficiency of public spending in the mid- to long-term have been procrastinated for years both at local and central level. The huge number of public employees in education and health sectors combined with the recent wage increases and made the task of balancing revenues with expenditures extremely challenging. Here is the main reserve to cut expenditures in long run, but this is not an immediately applicable solution;
- On the other hand, cutting the expenditures for public investment is not a desired solution either, given the limited investment in the past and the growth-enabling nature of these expenditures. Nevertheless, there are public investment projects which are not the most relevant and some rationalization could be made within these expenses as well;
- There is quite limited room for direct intervention of local governments because, facing the truth, they are quite weak in terms of available policy tools, financial resources and human resources. Pressures on companies are enacted by territorial divisions of the central public authorities and less by the local ones. What they can do is to achieve higher transparency in public management at local level. In short term, these government have also to become more vociferous in relations with the central Government which has to understand that local authorities are partners in development and for development and not political adversaries or vassals.

Appendice 1 : Policy Recommendation Matrix

Policy actions for reducing the impact of financial crisis on local communities

Type of actions / areas of intervention	Immediate Priorities	Long-term Priorities
Central Government		
Labour Market	Take immediate actions to offer targeted training programs for the people that have lost their jobs or are in risk of losing the jobs. These programs have to provide necessary skills to enable people finding other jobs or self-employ. A particular attention should be given to rural youth experiencing more significant hurdles of entering the labour market during this crisis.	Promote a more socially inclusive and geographically-balanced economic growth model. This growth has to be based on higher and more rural- and periphery-oriented public and private investment in education and roads.
Real Sector	Start institutionalized or informal dialogue between the government and the companies in order to discuss anti-crisis policy options. Sectoral working groups should be established within Ministry of Economy and Trade in order to discuss critical constraints to growth in each economic sector and to agree on necessary policy interventions at local level.	National Agency for Competition Protection should start a series of market enquiries on the functioning of core markets (medicines, food, and clothes) in order to eliminate the anti-competitive arrangements from the economy. The Agency should also start immediately an enquiry on the access of the farmers to the urban marketplaces.
	Stop immediately all informal pressures that state controlling bodies have exerted on companies in the last half year. Instead, further liberalize the business environment and adopt more investment-enabling regulations in order to encourage the businesses to create jobs and prevent growing share of the shadow economy.	Ensure a wider access to market outlets (both domestic and foreign) for local companies, and especially for agricultural producers. In case of the latter it is vitally important to develop a network of facilities for collecting their agricultural products.
	Start a dialogue with exporters from the key sectors and from all regions to identify and eliminate administrative behind-the-border trade barriers.	
	Refrain from adopting arbitrary decisions or regulations, particularly in the case of winemaking, international transportation and grains exporting sectors. An overall streamlining of procedures and cheapening of the import- and export-related regulatory	

Type of actions / areas of intervention	Immediate Priorities	Long-term Priorities
	measures is critically necessary.	
Public Finances	A working group should be established immediately by Ministry of Finance and district- and community-level public authorities to agree on a fair and transparent budget revision for 2009. At the same time the Parliament and the Government should refrain from approving politically-biased allocations of the public investment funds.	The Ministry of Finance should up-date its normatives for inter-budgetary transfers within a transparent dialogue with the local public authorities in order to ensure local governments with adequate revenue rising tools and motivate them to rely more intensively on local revenues. It is also necessary to adopt objective criteria for transfer allocation system, especially for the earmarked transfers which are less transparent nowadays. All these actions should increase fiscal and political autonomy of local public administrations.
	The government should freeze the announced increases in wages for 2009 with the objective to allow some other important expenses to be funded, such as communal service of schools and kindergartens.	The government should consider a more transparent and predictable redistribution mechanism of revenues from taxes between central and local budgets. It is necessary to evaluate the reintroduction of VAT in the revenue-sharing mechanism.
	Despite the significant importance of public investments in terms of job creation and infrastructure rehabilitation, under given budgetary constraints it is necessary to freeze financing of some secondary projects.	In the long run the main reserve for cutting public expenditures is the reduction of employees in public administration, some education institutions and some health institutions (non-core staff). This measure comes in line with the central public administration reform which has to be implemented gradually, but consequently.
Fiscal Policy	In the 2010 budget the Government should consider a reduction of the VAT on growth-enabling commodities and services, such as computers, automobiles and construction works and an increase in the excises for some luxury goods and services.	The direct taxation system has to be reconsolidated, so that the contribution of real sector to the budget increases and the dependence of public finances on households' consumption decreases.
	Administrative decentralization should take real implementation in Moldova in order to ensure an administrative and financial independence of district authorities, so their accountability would be to local citizens instead of central authorities.	It is necessary to evaluate the reintroduction of flat income tax, abolish all tax preferences and increase the level of non-taxable income to ensure the social protection of the lower income groups. Streamline the tax collection mechanisms.

Type of actions / areas of intervention	Immediate Priorities	Long-term Priorities
Social Policy	It is imperative for the new Government to speed up the reform of the social protection policy. By implementing a means-tested social protection policy, the Government would free up important amounts of resources that can be used more usefully in other sectors.	The Government has to create the necessary legislative environment for developing the multi-pillar pension system which would make the public pensions fund viable on the long-run and would transpose a significant share of pressures from PAYG pension system to additional 2nd and 3rd pillars.
	It is necessary to continue the pensions reform, and the first step for a benevolent Government would be abolishing all preferences and unwarranted benefits and to adopt an universal approach to all contributors and beneficiaries	
Foreign Policy	Abolishing immediately the visa regime for Romanian citizens introduced recently. Although it is a political issue, it has direct effects on the economic situation and multiplies the crisis repercussions.	The new government should start its negotiations with the EU regarding the visa-free regime for the Moldovan citizens. Achieving higher labour mobility on the EU direction would represent a landmark achievement for Moldova.
Fighting Corruption	It is necessary to intensify the anti-corruption policy in times of crisis when temptations are higher. Special attention should be paid to central and local public administrations and especially in the departments directly dealing with the economic agents (fiscal office, issuance of authorizations, licenses and other permits). Simplify state regulation of business activity is vital during the economic crisis and should not be undermined by the increasing corruption in state institutions.	A core ingredient to a successful anti-corruption campaign would be accomplishment of the central and local public administration reforms. The two administrative levels have to be well-paid, based on professional merits and free of political interferences. Another key for improving the resource allocation across the whole economy would be reducing the possibilities for corrupt deals in the public acquisitions sector.
Local Public Authorities		
Social Sphere	Social situation should be closely monitored at local level by both government and local public authorities. A closer cooperation between all power levels is necessary to prevent the growing social pressures in communities. A good cooperation between the public administration and grass roots organizations is necessary in order to prevent and deal with some negative social phenomena associated with the crisis impact (such	Given the poor financial autonomy of local public administrations, their representatives should develop more intense cooperation with the international financial organizations and bilateral donors for ensuring a sustainable financing source for many local social and economic projects.

Type of actions / areas of intervention	Immediate Priorities	Long-term Priorities
	as excessive consumption of alcoholic beverages).	
	It is highly important for the local public authorities and local NGOs to cooperate in monitoring that parents keep sending their children to school and do not cut expenditures on basic education items (e.g. books, writing materials etc). It is also necessary to monitor closely that children are not brought to agricultural fields or construction sites at the expense of the time that they have to spend in school or doing homework.	
Local Public Management	Local public authorities have to increase the transparency of local public management. It is also necessary a closer cooperation between local and central administration, based on partner relations instead of commandant and executor relationship.	The savings that some local governments accumulated in recent years have to be used to form special funds for supporting local business projects or covering own local contribution in the frame of projects financed from external grants (such as EU's programs).
Real Sector	Local governments should support the central government's policy related to optimization of business activity regulations (e.g. issuing of licenses and other permits for local economic agents). Local governments have to efficiently implement one-stop windows for issuing the necessary documents for business activities and to offer necessary advice to local enterprises.	Local governments have to concentrate on strengthening the abilities and expertise of local public servants, especially for those working in economic sections, dealing with economic agents and communicating with potential local and foreign investors and with international donors.
Companies		
Production Factors Management	Local enterprises should immediately cut production costs and administrative expenses. It does not necessarily refer to staff cuts, but rather to optimization of their supply chains (raw materials, energy resources).	Local companies have to allocate more resources for training programs for increasing the qualification of their personnel which will make the real sector less vulnerable to new economic and financial turbulences.
Marketing Management	In order to keep the clients and not to lose the market segment the economic agents should adjust their prices to falling demand. Additionally, it is necessary to implement some loyalty programs for keeping the clients' base stable and diversified.	Enterprises should concentrate more efforts for right market positioning. During the economic crisis increasing the products/services' quality and a good marketing strategy could keep or even increase the market share of the enterprises undertaking such measures.

Type of actions / areas of intervention	Immediate Priorities	Long-term Priorities
Supply-Chain Management	Many local companies have to optimize as much as possible their network of suppliers and re-evaluate the charges they pay for supplier services. It is also necessary to assess the possibility of reducing the number of intermediates and to select the suppliers located closer to the production units or local warehouses.	
Financial Management	The enterprises should undertake all the necessary measures in order not to fall out of liquidities and to keep the cash flow alive. Therefore, it is necessary to re-evaluate prudently the commercial credits given to their clients and provide for sounder contractual arrangements.	Enterprises have to pay special attention to the quality of their debit and credit accounts, as well as to the level of indebtedness and liquidities. Companies should resort to audit services for objective assessment of the quality of their assets and liabilities.
Donors' Community		
Empowering local communities and public administration	Taking into account the increasing unemployment during the recent months and the expected further increase of jobless people, the donor community should support projects aiming at requalification and training of these people in order to facilitate their employment.	Among the priorities of donor community programs have to be the strengthening of services management and financial management capacities of the local governments.
Human and development assistance	As cold season starts international donor community perhaps will have to step in for staving off the collapse of social infrastructure such as kindergartens, schools and hospitals. Additionally, donor programs should be targeted on socially vulnerable groups which will need means for heating their homes and even food packages and basic medicines.	Another priority of the donor community should be the support in creation and development of locally established small and medium enterprises and their access to financial resources and outsourcing services (marketing research, audit companies etc).

9. Annexes

1. List of conducted in-depth interviews

District	Community	Interviewed person	Function
Ștefan Vodă	Feștelita	Nicolaie Tudoreanu	Mayor
	Feștelita	Bortolomei Mihail	Medical assistant
	Feștelita	Vidrașcu Mihail	School director
	Popeasca	Chiril Cojocaru	Mayor
	Popeasca	Eugenia Pânzari	Family doctor
	Popeasca	Ion Sanduleac	School director
	Popeasca	Mariana Miron	Social assistant
Râșcani	Corlăteni	Gordila Victor	Mayor
	Corlăteni	Alexandru Cazacu	Family doctor
	Corlăteni	Elena Țurcanu	School director
	Corlăteni	Lidia Dumbrăveanu	Social assistant
	Singureni	Molosag Virgil	Mayor
	Singureni	Crețu Liuba	School director
Nisporeni	Grozești	Svetlana Mitrofan	Local council secretary
	Grozești	Rotaru Constantin	Family doctor
	Grozești	Nina Jalbă	School director
	Grozești	Marin Aliona	Social assistant
	Zberoaia	Colodroțcaia Nadejda	Mayor
	Zberoaia	n.n.	Medical assistant
	Zberoaia	n.n.	Social assistant
Hâncești	Caracui	Dumitru Urcuș	Local council secretary
	Caracui	Prozorovschi Lidia	Social assistant
	Sărata Galbenă	Ștefan Vlas	Mayor
	Sărata Galbenă	Pascari Anastasia	School director
	Sărata Galbenă	Maria Daud	Social assistant
Cahul	Cucoara	Aliona Goța	Mayor
	Cucoara	Ina Goța	School director
	Cucoara	Secăreanu Valentina	Social assistant
	Crihana Veche	Viorica Afteni	Local council secretary
	Crihana Veche	Elena Răileanu	Family doctor
	Crihana Veche	Silvia Niculiță	Social assistant
	Manta	Maria Chiriac	Family doctor

2. Sociological survey: methodological details

- **Sample size:** 1100 persons aged 18 and above.
- **Sample:** stratified, probabilistic, two-stage.
- **Stratification criteria:** 12 geographic regions, matching the administrative territorial units, which existed prior to the repeated division by districts, (urban-rural) residential area, size of urban areas (two types), number of voters in rural areas (two types of rural areas).
- **Sampling:** urban strata sizes and totals by region (former counties) were calculated proportionally to the number of people according to data reported by the National

Bureau of Statistics. Rural strata sizes were calculated proportionally to the number of voters;

- **Representativeness:** the sample is representative for the adult population of the Republic of Moldova, allowing for a maximum error of $\pm 3\%$.
- **Data collection period:** 1-15 July 2009. Interviews were conducted at respondents' home, by operators of the CBS AXA network. The questionnaire was drafted in Romanian and Russian, so that respondents could choose their preferred version.
- **Data entry and processing:** the collected data were processed in SPSS 15.

3. Methodological aspects of the conducted focus-groups

The purpose of the focus groups was to get a qualitative assessment of the impact of the financial crisis at personal and community level. Such topics have been discussed as: main fears and concerns of the people; self-assessment of the family and individual wellbeing and income level as compared with the situation one year back; perceptions regarding the economic crisis and its effects; anti-crisis measures adopted at individual and family level; inter-personal and community relations in the context of the crisis; expectations for the future. Selection of participants was done using the following criterion: sex, age, education level, sector of activity. Rural participants have been selected from among the villages of the district where the focus group took place. Districts have been chosen to cover all three regions: North, Centre, South.

Surveyed subject:

- Migrants that returned home permanently;
- Migrants' families members;
- Persons that have lost their jobs in the last half year;
- Employees of private companies;
- Employees in the public sector;
- Parents with children that have recently graduated school or other educational institution;

Period of conducting focus-groups: July 2009; each focus group lasted 2 hours;

Data collection: discussions have been recorded with participants' permission;

Location of the focus-groups:

Community	Participants category	Date	Number of participants
Ștefan Vodă	Participants from rural and urban areas	July 7	8 persons
Rîșcani	Participants from urban area	July 2	12 persons
Nisporeni	Participants from urban area	July 3	9 persons
Cahul	Participants from rural area	July 9	9 persons
Hîncești	Participants from rural area	July 10	8 persons

4. Moldova's statistical areas

Chisinau – Chisinau and the suburbs which are part of the district.

North –Briceni, Edinet, Ocnita, Donduseni, Soroca, Drochia, Rascani, Glodeni, Falesti, Sangerei, Floresti, Soldanesti districts and Balti municipality.

Centre –Ungheni, Telenesti, Rezina, Orhei, Calarasi, Nisporeni, Straseni, Criuleni, Dubasari, Anenii Noi, Ialoveni and Hancesti districts.

South – Leova, Cimislia, Basarabeasca, Causeni, Stefan Voda, Cantemir, Taraclia and Cahul districts, ATU Gagauzia.

5. List of people consulted for the local budgets' impact assessment

1. Burca Boris, Head of Telenesti District Council
2. Ion Harea, Head of Ungheni District Council
3. Iraida Binzari, Deputy Head of Falesti District Council
4. Ludmila Guzun, Deputy Head of Ungheni District Council
5. Valentina Gandrabur, Head of Finance Division, Telenesti district
6. Anton Loreti, Head of Economic Division, Telenesti district
7. Tatiana Struc, Head of Finance Division, Ungheni district
8. Eudochia Viziru, Head of Economic Division, Ungheni district
9. Jana Cojocari, Head of Financial Division, Falesti district.